Deloitte.

IAS Plus

IASB

Meeting Summary

February 2023

This is a compilation of the summary available on IAS Plus at:
https://www.iasplus.com/en/meeting-notes/iasb/2023/february/
The meeting agenda and all of the staff papers are available on the IASB website:
https://www.ifrs.org/news-and-events/calendar/2023/february/international-accounting-standards-board/

Preview

The IASB is meeting in London on 20-23 February 2023. The following topics are on the agenda:

Maintenance and consistent application

The IASB will make its final decisions on supplier finance arrangements and lack of exchangeability, and will discuss potential items for the next annual improvements cycle.

Supplier Finance Arrangements—The staff recommend that the effective date for the amendments should be for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted. The staff also recommend that the IASB does not require disclosure of comparative information for prior periods in the annual reporting period it first applies the amendments. Further, the staff recommend that the IASB does not require the disclosure of certain quantitative information in an entity's first annual financial statements after the amendments become effective.

Lack of Exchangeability—The staff recommend that the IASB proceed with the amendments to IFRS 1 as proposed in the ED but make no amendments to IFRS 13. The staff also recommend that the IASB should require an entity to apply the amendments for annual reporting periods beginning on or after 1 January 2025, with earlier application permitted.

Annual Improvements to IFRS Accounting Standards—The staff recommend that the IASB propose amendments relating to the following items in its next Annual Improvements cycle: hedge accounting by a first-time adopter (IFRS 1); determination of a 'de facto agent' (IFRS 10); transaction price (IFRS 9); cost method (IAS 7); gain or loss on derecognition (IFRS 7); credit risk disclosures (IFRS 7).

Post-implementation Review of the IFRS 9 Impairment Requirements

The IASB will discuss which items to include in the upcoming Request for Information (RFI) on the post-implementation review of the IFRS 9 impairment requirements. The staff recommend the following topics: general approach to recognition of expected credit losses (ECL); determining significant increase in credit risk; measurement of ECL; purchased or originated credit-impaired financial assets; simplified approach for trade receivables, contract assets and lease receivables; loan commitments and financial guarantee contracts; interaction between ECL and other requirements; transition; and objective-based disclosure requirements. The IASB will be asked to approve the publication of, and set a comment period for, the RFI at a future meeting.

Rate-regulated Activities

The IASB will redeliberate the proposals on recognition and total allowed compensation in the Exposure Draft *Regulatory Assets and Regulatory Liabilities*. The staff make specific recommendations with regard to the recognition threshold, enforceability and recognition and performance incentives.

Dynamic Risk Management

The IASB will discuss whether financial assets measured at FVOCI or FVPL are eligible for inclusion in the concept of current net open risk position (CNOP). The staff recommend that financial assets measured at FVOCI are eligible for designation in the CNOP, while financial assets measured at FVPL are not eligible for designation in CNOP. The staff also recommend not requiring the retrospective assessment against an entity's target profile, and only keep the retrospective assessment to check whether the entity has mitigated interest rate risk during the assessment period when applying the DRM model. In addition, the staff recommend the introduction of another retrospective assessment based on the entity's capacity to realise the expected benefits.

Financial Instruments with Characteristics of Equity

The IASB will make decisions related to the classification and presentation of issued financial instruments applying IAS 32 and IAS 1. The staff make specific recommendations with regard to the fixed-for-fixed condition, reclassification, the effects of laws on contractual terms, obligations to redeem own equity instruments, and presentation of financial liabilities and equity instruments.

Business Combinations—Disclosure, Goodwill and Impairment

The IASB will decide on certain aspects of the proposed package of new disclosures, focusing on the application of the 'management approach', how long information should be required for, changing metrics, use of ranges, and key objectives.

Maintenance and consistent application

In this session, the IASB will make its final decisions on its Supplier Finance Arrangements and Lack of Exchangeability projects, and discuss items that could be included in the next Annual Improvements to IFRS Accounting Standards Cycle.

Cover paper (Agenda Paper 12)

In this session, IASB members will be asked to make the final decisions on the Supplier Finance Arrangements and the Lack of Exchangeability projects. They will also discuss potential amendments to IFRS Accounting Standards to be included in the next Annual Improvements to IFRS Accounting Standards Cycle, that have become necessary mainly due to inconsistencies or lack of clarities in specific paragraphs.

Supplier finance arrangements—Transition, effective date and due process (Agenda Paper 12A)

The purpose of this paper is to:

- Provide the IASB with supplemental information related to a possible earlier effective date for the amendments and associated transition requirements
- Ask the IASB whether it agrees with the staff's updated recommendations with respect to the effective date and transition requirements for the amendments
- Set out the steps in the IFRS Foundation Due Process Handbook (Due Process Handbook) that the IASB has taken in developing the amendments
- Ask the IASB to confirm it is satisfied that it has complied with the due process requirements
- Ask whether any IASB member intends to dissent from the amendments

Staff recommendation

The staff recommend that the IASB:

- Require an entity to apply the amendments for annual reporting periods beginning on or after 1 January 2024
- Permit earlier application and, if an entity applies the amendments for an earlier period, require the entity to disclose that fact
- Not require disclosure of comparative information for prior periods in the annual reporting period it first applies the amendments
- Not require the disclosure of the following quantitative information as at 1 January 2024 in an entity's first annual financial statements after the amendments become effective:
    - The carrying amount of financial liabilities recognised in an entity's statement of financial position that are part of supplier finance arrangements for which suppliers have already received payment from the finance providers
    - The range of payment due dates of both financial liabilities that are part of supplier finance arrangements and comparable trade payables that are not part of such arrangements
- Not require the disclosures required by the amendments for any interim period presented within the annual period in which an entity first applies the amendments
- Provide no specific transition exemption for first-time adopters
- Finalise the amendments without re-exposure

Lack of Exchangeability (Proposed amendments to IAS 21)—Due process, effective date and other matters (Agenda Paper 12B)

The purpose of this paper is to:

- Ask the IASB whether it agrees with the staff's recommendations with respect to potential amendments to IFRS 1 and IFRS 13
- Ask the IASB whether it agrees with the staff recommendation with respect to the effective date for the amendments
- Set out the steps in the IFRS Foundation Due Process Handbook that the IASB has taken in developing the amendments
- Ask the IASB to confirm it is satisfied that it has complied with the due process requirements
- Ask whether any IASB member intends to dissent from the amendments

Respondents' feedback

Almost all respondents provided no feedback on the proposed changes to IFRS 1. One respondent suggested also amending paragraph D27 of IFRS 1 to state that the currency of a hyperinflationary economy is not considered to be subject to severe hyperinflation when entities using that currency as their functional currency are able to apply IAS 29. In the staff's view, such a change is beyond the project's scope.

The IASB received no feedback on its proposal to permit earlier application.

Staff recommendation

The staff recommend that the IASB:

- Proceed with the proposed amendments to IFRS 1
- Make no amendments to IFRS 13
- Require an entity to apply the amendments for annual reporting periods
- Beginning on or after 1 January 2025, with earlier application permitted
- Finalise the amendments without re-exposure

Hedge accounting by a first-time adopter (IFRS 1)—Potential annual improvement (Agenda Paper 12C)

In November 2022, the IFRS Interpretations Committee (IFRS IC) discussed the potential confusion arising from an inconsistency in wording between paragraph B6 of IFRS 1 and requirements for hedge accounting in IFRS 9.

Paragraphs B5–B6 of IFRS 1 were originally written to be consistent with the requirements for hedge accounting in IAS 39. First-time adopters of Accounting Standards applying IFRS 1 and IFRS 9 do not have an option to apply the hedge accounting requirements in IAS 39 and therefore apply IFRS 9.

If read literally, there is an inconsistency between the requirements in paragraph B6 of IFRS 1 and the requirements in paragraph 6.4.1 of IFRS 9; IFRS 9 sets out 'qualifying criteria' rather than 'conditions' for hedge accounting.

The question raised to the IASB was whether the reference in paragraph B6 of IFRS 1 to the 'conditions' for hedge accounting in IFRS 9 should be updated to be consistent with the wording in Section 6.4 of IFRS 9 that sets out 'qualifying criteria for hedge accounting'.

Staff recommendations

The staff recommend that the IASB should amend paragraphs B5 and B6 of IFRS 1 as follows:

- Adding a cross-reference to paragraph 6.4.1(a) of IFRS 9 in paragraph B5 of IFRS 1
- Adding a cross-reference to paragraph 6.4.1(b)-(c) in paragraph B6 of IFRS 1
- Replacing the word 'conditions' with 'qualifying criteria' in paragraph B6 of IFRS 1

The staff recommend that the IASB include these proposed amendments in its next annual improvements cycle.

The staff think that no specific transition requirements should be provided for the proposed amendments, considering that transition requirements are not relevant for companies that applied IFRS 1 in a previous period.

Determination of a 'de facto agent' (IFRS 10)—Potential annual improvement (Agenda Paper 12D)

In November 2022, the IFRS IC discussed the potential confusion arising from an inconsistency between paragraphs B73 and B74 of IFRS 10 related to an investor determining whether another party is acting on its behalf.

Confusion may arise because paragraph B73 states the principle—that a de facto agent is a party that acts on the investor's behalf—and that the determination of whether other parties are acting as de facto agents requires judgement. However, the second sentence of paragraph B74 includes more conclusive language and states that 'a party is a de facto agent when the investor has, or those that direct the activities of the investor have, the ability to direct that party to act on the investor's behalf'.

Following the requirements of the paragraph B74, more than one entity might conclude that it controls an entity through a de facto agent. This because the definition of 'de facto agent' is strictly related to the 'ability to direct that party to act on the investor's behalf' and not on the determination of whether other parties are acting as de facto agents, that requires judgement.

The purpose of this paper is to propose an amendment to paragraph B74 of IFRS 10 to remove the inconsistency with the requirement to use judgement included in paragraph B73 of IFRS 10.

Staff recommendation

The staff recommend that the IASB amend paragraph B74 of IFRS 10 using less conclusive language, which would replace 'is [a de facto agent]' with 'may act as [a de facto agent]' and to include the proposed amendment in its next annual improvements cycle.

The staff think that no specific transition requirements should be provided because no changes in practice or material effects on the entities' consolidated financial statements are expected. In the absence of any specific transition requirements, an entity would apply the proposed amendment retrospectively in accordance with paragraph 19(b) of IAS 8.

Transaction price (IFRS 9)—Potential annual improvement (Agenda Paper 12E)

In November 2022, the IFRS IC discussed the potential confusion arising from a reference in Appendix A of IFRS 9 to the definition of 'transaction price' in IFRS 15. The potential for confusion arises because the term 'transaction price' is used in particular paragraphs of IFRS 9 with a meaning that is not necessarily consistent with the definition of that term in IFRS 15.

IFRS 9 uses the term transaction price in several paragraphs. In particular, there are two ways in which IFRS 9 uses the term 'transaction price:

- As defined in IFRS 15—in paragraph 5.1.3 of IFRS 9 in the context of trade receivables
- As the fair value of the consideration given or received—in paragraphs 5.1.1A, B5.1.1 and B5.1.2A of IFRS 9

The use of the term 'transaction price' as defined in IFRS 15 is not intended to be, and is not necessarily, the same as 'fair value of the consideration given or received'. According to the IFRS IC, it is unnecessary—and potentially confusing—to retain a reference to 'transaction price' (as defined in IFRS 15) in paragraph 5.1.3 and in Appendix A of IFRS 9.

The purpose of this paper is to propose an amendment of paragraph 5.1.3 of (and Appendix A to) IFRS 9 to remove the inconsistency between paragraph 5.1.3 of IFRS 9 and the requirements in IFRS 15.

Staff recommendation

The staff recommend that the IASB amend paragraph 5.1.3 of IFRS 9 replacing the words 'their transaction price (as defined in IFRS 15)' with 'the amount determined applying IFRS 15' and deleting the reference to 'transaction price' (as defined in IFRS 15) from Appendix A to IFRS 9. The staff recommend to include these proposed amendments in its next annual improvements cycle.

The staff think that no specific transition requirements should be provided because no changes in practice or material effects on the entities' financial statements are expected. In the absence of any specific transition requirements, an entity would apply the proposed amendment retrospectively in accordance with paragraph 19(b) of IAS 8.

Cost method (IAS 7)—Potential annual improvement (Agenda Paper 12F)

In November 2022, the IFRS IC discussed the potential lack of clarity in paragraph 37 of IAS 7, which arises from the continued use of the term 'cost method' with reference to the cash flows between the investor and an investment in an associate, a joint venture or a subsidiary. The 'cost method' is no longer defined in IFRS Accounting Standards since the amendment of IAS 27 in May 2008.

The purpose of this paper is to propose an amendment to paragraph 37 of IAS 7 to replace the term 'cost method' with 'at cost'. This would improve clarity in that paragraph, without changing or adding new requirements.

Staff recommendation

The staff recommend that the IASB should amend paragraph 37 of IAS 7 replacing replace the term 'cost method' with 'at cost' and to include the proposed amendment in its next annual improvements cycle.

The staff think that no specific transition requirements should be provided because no changes in practice or material effects on the entities' financial statements are expected. In the absence of any specific transition requirements, an entity would apply the proposed amendment retrospectively in accordance with paragraph 19(b) of IAS 8.

Gain or loss on derecognition (IFRS 7)—Potential annual improvement (Agenda Paper 12G)

In November 2022, the IFRS IC discussed the potential lack of clarity in paragraph B38 of IFRS 7 that arises because it refers to paragraph 27A in IFRS 7 that no longer exists.

In May 2011, the IASB issued IFRS 13. As part of that issuance, the IASB made consequential amendments to several IFRS Accounting Standards, including deleting paragraphs 27–27B of IFRS 7. However, paragraph B38 of IFRS 7 was not updated to reflect this deletion.

The purpose of this paper is to propose an amendment of paragraph B38 of IFRS 7 to remove or replace the reference to paragraph 27A of IFRS 7.

Staff recommendation

The staff recommend that the IASB amend paragraph B38 of IFRS 7 to replace the reference to paragraph 27A of IFRS 7 with a reference to paragraphs 72–73 of IFRS 13 and to include the proposed amendment in its next annual improvements cycle.

The staff think that no specific transition requirements should be provided because no changes in practice are expected. In the absence of any specific transition requirements, an entity would apply the proposed amendment retrospectively in accordance with paragraph 19(b) of IAS 8.

Credit risk disclosures—Illustrative examples accompanying IFRS 7—Potential annual improvement (Agenda Paper 12H)

In November 2022, the IFRS IC discussed the potential lack of clarity in paragraph IG20C of the implementation guidance accompanying IFRS 7 because that paragraph fails to state that the example does not illustrate all the requirements in paragraph 35M of IFRS 7.

The tables in paragraph IG20C of IFRS 7 do not illustrate all the disclosure requirements in paragraph 35M of IFRS 7—and the paragraph does not state that it omits illustration of particular requirements. For example, the tables illustrate neither an entity's exposure to credit risk on loan commitments and financial guarantee contracts nor the requirements in paragraph 35M(b)(i)–(ii) 2 or 35M(c).

The purpose of this paper is to propose an update of paragraph IG20C of IFRS 7 to state that it does not illustrate all the requirements in paragraph 35M of IFRS 7.

Staff recommendation

The staff recommend that the IASB should amend paragraphs IG1 to add a statement that the implementation guidance accompanying IFRS 7 does not illustrate all the requirements in IFRS 7 and paragraph IG20B of IFRS 7 to streamline the wording. The staff recommend to include these proposed amendments in its next annual improvements cycle.

The staff think that no specific transition requirements should be provided because the amendment proposed is to non-authoritative material accompanying IFRS 7.

Post-implementation Review of IFRS 9—Impairment

In this session, the IASB will discuss which items to include in the upcoming Request for Information on the post-implementation review of the IFRS 9 impairment requirements.

Cover note (Agenda Paper 27)

The IASB is undertaking the post-implementation review (PIR) of the expected credit losses (ECL) requirements in IFRS 9. The plan for phase 1 of the PIR (identification of matters to be examined) was discussed in the IASB meeting in July 2020. Between September 2022 and January 2023, IASB members and staff have been performing outreach with the purpose to assist the IASB in identifying matters to gather further information on in the Request for Information (RFI). The IASB will analyse responses to the RFI in phase 2 of the PIR.

The questions asked to stakeholders related to the following areas of the requirements:

- The general approach to recognition of ECL
- Determining significant increases in credit risk (SICR)
- Measurement of ECL
- Purchased or originated credit-impaired financial assets
- Simplified approach for trade receivables, contract assets and lease receivables
- Loan commitments and financial guarantee contracts
- Interaction between ECL and other requirements
- Transition
- Disclosures

The staff also asked particular stakeholders additional questions which could be more relevant to those groups.

Next steps

The IASB will be asked to approve the publication of, and set a comment period for, the RFI at a future meeting—after IASB members have reviewed a pre-publication draft.

The staff expect the RFI will be published around the end of May 2023.

Analysis of outreach feedback—General model (Agenda Paper 27A)

This paper analyses feedback from outreach in phase 1 of the PIR of the ECL requirements in IFRS 9. The staff summarises general feedback on the application of the ECL requirements, as well as specific feedback on the following areas:

- The general approach to recognition of ECL
- Determining SICR
- Measurement of ECL

Summary of general feedback

Overall, stakeholders expressed positive views about the application of the ECL requirements and that the requirements are generally working well in practice, including in periods of enhanced economic uncertainty such as during the COVID-19 pandemic.

Whilst for many stakeholders the impact of the changes introduced by the ECL requirements has been significant, most stakeholders specifically commented that the forward-looking ECL model in IFRS 9 results in a more timely recognition of credit losses, and stakeholders also mentioned improvements of entities' internal controls and alignment to credit risk management. Nonetheless, stakeholders said they observed diversity in practice in how entities apply ECL requirements, thus lack of comparability, at least in part, because of the high level of judgement involved.

Stakeholders suggested that the IASB should consider including additional application guidance or clarification, and also enhancing disclosure requirements in IFRS 7 aimed at resolving existing lack of consistency.

The staff agreed that, whilst diversity in practice is not optimal, some diversity in practice might arise because entities adopt different credit risk management practices and that, the effect of that diversity may not always be a significant detriment to the usefulness of information provided to the user of financial statement.

Staff recommendation

The staff recommend that the IASB ask questions in the RFI about the general approach to recognition of ECL, determining SICR and measurement of ECL.

Analysis of outreach feedback— Other areas (Agenda Paper 27B)

This paper continues to analyse feedback from outreach in phase 1 of the PIR of the ECL requirements in IFRS 9. The staff provide the analysis of feedback on the remaining areas of the ECL requirements in IFRS 9, namely:

- Purchased or originated credit-impaired financial assets
- Simplified approach for trade receivables, contract assets and lease receivables
- Loan commitments and financial guarantee contracts
- Interaction between ECL and other requirements
- Transition

The IASB members will be asked whether they agree with the staff recommendations of this paper, and whether there are any additional matters that the IASB should ask questions about in the RFI.

Staff recommendation

The staff recommend that the IASB ask questions in the RFI about the matters identified in the paper.

Analysis of outreach feedback— Disclosures (Agenda Paper 27C)

This paper continues to analyse feedback from outreach in phase 1 of the PIR of the ECL requirements in IFRS 9. The staff analyses feedback from outreach related to the credit risk disclosure requirements in IFRS 7.

The IASB members will be asked whether they agree with the staff recommendations of this paper, and whether there are any additional matters that the IASB should ask questions about in the RFI.

Overview of feedback

Most feedback during outreach related to credit risk disclosures. Stakeholders across the various stakeholder groups were of the view that there is a lack of consistency in the type and granularity of information disclosed by different entities. However, stakeholders expressed mixed views about the root cause for this lack of consistency. Some stakeholders attributed the lack of consistency to the disclosure objectives being too principles-based and suggested that the IASB adds further minimum disclosure requirements, specifies the format of some disclosures, and adds more illustrative examples in IFRS 7. Some auditors said that IFRS 7 provides clear disclosure objectives that are designed to enable entities to tailor the information disclosed to what is relevant in the context of their credit risk exposure. A few other stakeholders said that the lack of consistency in credit risk disclosures is also due to the different credit risk management practices applied by entities.

Most stakeholders said they generally observe a lack of consistency in the disclosures provided about the post-model adjustments or overlays (PMA), determining SICR, changes in the loss allowance and the gross carrying amounts and sensitivity analysis.

The staff note that feedback from outreach suggests there is significant lack of consistency and thus stakeholders suggest the IASB adds more specificity to these disclosure requirements.

Staff recommendation

The staff recommend that the IASB ask questions in the RFI about whether the objective-based disclosure requirements in IFRS 7 for credit risk are working well in practice.

Review of academic literature (Agenda Paper 27D)

This paper provides an overview of the academic literature relevant to the PIR of the ECL requirements in IFRS 9.

The IASB members will be asked whether they have any questions or comments on the academic literature summarised in this paper.

Key messages

Market participants reacted positively to IFRS 9. However, there was mixed evidence on whether managerial discretion on application of ECL model resulted in increased earnings management after the implementation of IFRS 9.

There is evidence from several academic papers that the loss allowances for credit losses increased on transition to IFRS 9. Also, the ECL model resulted in more timely recognition of allowances for credit losses. The application of the ECL requirements in IFRS 9 resulted in more useful information for the purposes of predicting credit and equity risk. One academic paper concluded that while the ECL model in IFRS 9 is less procyclical than the incurred loss model in IAS 39.

The study found that the banks with subsidiaries applying IFRS 9 charged higher loan fees to their customers than banks without such subsidiaries. Also, implementing the ECL requirements were followed by a decrease in lending to small and medium-sized entities (SMEs). Evidence based on a sample of Chinese entities showed that entities incurred higher audit fees after transition to IFRS 9.

On the interaction between IFRS 9 and the supervisory rules, researchers concluded that IFRS 9 might enhance financial stability through reducing the build-up of losses and overstatement of regulatory capital and through extended disclosure requirements. Also, banks with regulatory capital constraints were more likely to adopt the Basel Committee on Banking Supervision (BCSB)'s capital transitional arrangements.

The results indicate that IASB acted as an independent standard-setter in developing IFRS 9. Also, the IASB developed the ECL model by balancing the objective of faithfully reflecting economic reality with being operationally feasible for its stakeholders.

Rate-regulated Activities

At this meeting, the IASB will continue redeliberating the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities*.

Cover note (Agenda Paper 9)

At this meeting, the IASB will continue redeliberating the proposals in the Exposure Draft (ED) *Regulatory Assets and Regulatory Liabilities*. For that, the staff prepared three papers on recognition and one paper on total allowed compensation.

Recognition—Overview (Agenda Paper 9A)

This paper sets out the topics that the staff recommend the IASB redeliberates within the recognition workstream.

A feedback summary provided in the paper considers comments received from respondents to the questions in the recognition section of the 'invitation to comment' and a question in the measurement section of the 'Invitation to comment' that had an interaction with the proposals on recognition.

After giving an overview of the comments received, the paper sets out a table containing the topics relating to the recognition proposals that the staff propose to discuss with the IASB.

The staff are not asking the IASB to make decisions on this paper. However, the staff ask the IASB to comment on any additional matters that the staff may need to consider in the redeliberations of the proposed recognition requirements.

The recognition threshold (Agenda Paper 9B)

This paper sets out the staff analysis and recommendations on the proposed threshold for the recognition of regulatory assets and regulatory liabilities.

Staff recommendation

The staff recommend that the final Accounting Standard:

- Retains the proposal that an entity should recognise a regulatory asset or a regulatory liability that is subject to existence uncertainty if it is more likely than not that the asset or liability exists
- Retains the proposal not to set a recognition threshold based on the probability of a flow of economic benefits
- Specifies that an entity should recognise all regulatory assets and all regulatory liabilities that exist regardless of the level of measurement uncertainty, except for regulatory assets and regulatory liabilities:
    - Whose measurement depends on benchmarks not known at year end
    - Arising from long-term performance incentives (this topic will be discussed at a future meeting)
- Retains the proposed symmetric recognition threshold for regulatory assets and regulatory liabilities
- Specifies that regulatory assets or regulatory liabilities whose measurement depends on benchmarks not known at year end should be recognised only when any uncertainty associated with their measurement is resolved

Enforceability and recognition (Agenda Paper 9C)

This paper sets out staff analysis and recommendations on the interaction between the assessment of enforceability and the recognition of regulatory assets and regulatory liabilities.

Staff recommendation

The staff recommend:

- Enhancing the proposed requirements on enforceability in the final Accounting Standard
- Retaining the proposed single assessment of the existence of enforceable present rights and enforceable present obligations at the level of the individual regulatory asset or regulatory liability in the final Accounting Standard
- Clarifying in the final Accounting Standard that rights and obligations do not need to be certain for an entity to be able to conclude they would be enforceable
- Incorporating the principles underlying an entity's right to payment for performance completed to date in paragraph 35(c) of IFRS 15 into the requirements on enforceability in the final Accounting

Standard. These principles would be used in establishing the requirements for regulatory returns on an asset not yet available for use and long-term performance incentives

Total allowed compensation–performance incentives (Agenda Paper 9D)

This paper sets out staff analysis and recommendations on the proposals for accounting for performance incentives, except those that test entities' performances across multiple periods (long-term performance incentives). The staff will analyse feedback received on the recognition and measurement of long-term performance incentives and make recommendations at a future meeting.

Staff recommendation

The staff recommend that the final Accounting Standard retains the proposals in paragraphs B16–B18 of the ED that amounts relating to a performance incentive, including those incentives that test only an entity's performance of construction work, form part of or reduce the total allowed compensation for goods or services supplied in the period in which the entity's performance gives rise to the incentive.

Dynamic Risk Management

At this meeting, the staff analyse whether financial assets measured at FVOCI or FVPL are eligible for inclusion in the concept of current net open risk position.

Items eligible for designation in the current net open risk position (Agenda Paper 4A)

The IASB introduced the concept of current net open risk position (CNOP) in November 2021 as the net open interest rate risk exposure (by time bucket) derived from the combination of an entity's assets and liabilities (including core demand deposits) and eligible future transactions over the period the entity is managing such risk. In other words, this is the 'organic' interest rate risk exposure from the entity's underlying positions before considering any derivatives.

In the July 2022 project plan, the staff included the consideration of items that would be eligible for inclusion in the CNOP as one of the areas requiring further analysis in the dynamic risk management (DRM) model. More specifically, the staff listed:

- Own equity (such as, equity reserves and equity instruments with characteristics of debt)
- Financial assets classified as fair value through other comprehensive income (FVOCI items)
- Other financial assets that are classified as fair value through profit or loss (FVPL) as a result of not having contractual cash flows that are solely payments of principal and interest

In its November 2022 meeting, the IASB discussed the inclusion of own equity in the CNOP and concluded it is not necessary to achieve the objectives of the DRM model, and therefore, equity is not eligible for designation in the CNOP.

At this meeting, the staff analyse whether financial assets measured at FVOCI or FVPL are eligible for inclusion in the CNOP.

Based on the analysis, the staff think that although including FVOCI financial assets in the CNOP would not achieve an offsetting position in the statement of financial position, the DRM adjustment would nevertheless achieve the dual objectives of the DRM model, i.e. provide an offset when the net interest income and/or economic value inherent in the underlying items is realised (when it affects profit or loss). Therefore, the staff conclude that the DRM adjustment does faithfully represent the underlying economic phenomenon and as a result FVOCI items should be eligible for designation in the CNOP.

The staff also believe that financial assets measured at FVPL should not be eligible to be designated in the CNOP because the general accounting requirements already achieve faithful representation of both the economic value and earnings perspective. This is because the protection/benefit provided by the derivative is recognised in the same period as the change in value of the underlying item in profit and loss.

Staff recommendation

The staff recommend that financial assets measured at FVOCI are eligible for designation in the CNOP, while financial assets measured at FVPL are not eligible for designation in CNOP.

Performance assessment and unexpected changes (Agenda Paper 4B)

The IASB's objective of developing the DRM model is to better reflect an entity's interest rate risk management strategy and activities in its financial statements. As a result, an entity's CNOP is determined on the basis of its risk management strategy (subject to the qualifying criteria for items included), reflecting the expected rather than contractual cash flows.

Since these expected cash flows are based on the entity's internal models and include, for example, modelling of prepayments or core demand deposits, there could be unexpected changes in the actual cash flows or the entity's expectations could change due to unexpected events.

To ensure the DRM model provides information that is relevant and a faithful representation of the economic substance of an entity's DRM activities in the financial statements, a retrospective assessment of the success and performance of these activities are needed. This will ensure the robustness of the DRM model and maintain the required discipline when applying any hedge accounting or risk mitigation model.

The purpose of this paper is to analyse how unexpected changes could be reflected in the assessment and measurement of performance in the DRM model.

As a result of the analysis, the staff are of the view that the retrospective assessment against the entity's target profile would not provide useful information to the users of the financial statements and applying such mechanics could even confuse or mislead users in some circumstances.

Staff recommendation

The staff recommend not requiring the retrospective assessment against an entity's target profile, and only keep the retrospective assessment to check whether the entity has mitigated interest rate risk during the assessment period when applying the DRM model.

To address the challenge that the DRM model may not capture the full effects of unexpected changes (since the retrospective assessment would only consider the effects for the DRM period under assessment), the staff recommend the introduction of another retrospective assessment based on the entity's capacity to realise the expected benefits.

Financial Instruments with Characteristics of Equity

In this session, the staff will ask the IASB for tentative decisions related to the classification and presentation of issued financial instruments applying IAS 32 and IAS 1.

Cover note (Agenda Paper 5)

In June 2018, the IASB published Discussion Paper DP/2018/1 *Financial Instruments with Characteristics of Equity.* At this meeting, the staff will present three papers and will ask the IASB for tentative decisions related to the classification and presentation of issued financial instruments applying IAS 32 and IAS 1.

The first two papers relate to sweep issues and the final paper relates to presentation of equity instruments and is a follow up to the discussion in December 2022.

Classification and Presentation: Sweep issues (Part A) (Agenda Paper 5A)

This paper covers three sweep issues: fixed for fixed condition, shareholder discretion and reclassification.

Fixed-for-fixed condition

The staff recommend clarifying that the foundation principle is met if the entity knows how many functional currency units it is entitled to receive per type of own share if the option is exercised.

The foundation principle states that a derivative on own equity that meets the fixed-for-fixed condition should have a fair value on the settlement date (settlement value) that is: (i) only affected by fluctuations in the price of the underlying equity instruments (exposed to equity price risk); and (ii) not affected by fluctuations in other variables that the holder of the underlying equity instruments would not be exposed to (not exposed to other risks).

Shareholder discretion

In February 2022, the IASB discussed the classification of a financial instrument with a contractual obligation to deliver cash (or to settle it in such a way that it would be a financial liability) at the discretion of the issuer's shareholders. The IASB explored a factors-based approach to help an entity in applying its judgement. The wording below reflects the staff's thinking on how to articulate the factors.

<u>Factors that an entity could consider when making that assessment include:</u>

- Whether a shareholder decision would be routine in nature, that is, in the normal course of the entity's business activities in accordance with the entity's established operating and corporate governance procedures
- Whether a shareholder decision relates to an action that would be proposed by the entity's management
- Whether different classes of shareholders would benefit differently from a shareholder decision
- Whether the exercise of a shareholder decision-making right would enable those shareholders to require redemption of (or payment of a return on) their shares in cash or another financial asset (or other settlement in such a way that it would be a financial liability)

The factors set out are examples of factors that an entity could consider when assessing whether a shareholder decision is treated as a decision of the entity. Other factors may be pertinent to that assessment. The weightings applied to each factor when making that assessment depends on the specific facts and circumstances.

The staff believe that the risk of manipulation of the assessment by entities would be mitigated by IAS 1:122 which requires entities to disclose judgements that management has made. In addition, in a future meeting, the staff will consider whether any additional disclosures should be included in IFRS 7 regarding judgements made.

The staff think it will be important to clarify the objective of the proposed amendment in the Basis for Conclusions in the forthcoming exposure draft (ED), and why the factors are optional:

- The objective is to help entities apply their own judgement in making that assessment based on the contractual terms and conditions, facts and circumstances
- The factors are optional so that they do not limit or constrain in any way an entity's judgements in making its assessment. The assessment requires significant judgement to be applied on a case-by-case basis. There is not one factor that works in all situations, some are relevant in some cases but not in others or there may be additional relevant factors. For that reason, the factors are not intended to be an exhaustive list but rather represent common factors that would often be relevant

The staff will ask the IASB if they have any comments or questions on the proposed factors to consider.

Reclassification

It was noted that in practice the term reclassification is used synonymously with derecognition. In June 2022, it was concluded that reclassification:

- Refers to a change in the classification of an existing financial instrument when there has been no derecognition
- Would not involve the recognition of a new financial instrument
- May be a way to reflect that the nature of the obligation has substantially changed when the requirements for derecognition and recognition are not met. Reclassification may therefore be appropriate when a financial instrument continues to exist but there has been a change in the substance of its contractual terms without a modification to the contract

The staff noted that 'reclassification' is also mentioned in IAS 32:23 which discusses the accounting on initial recognition and expiry (derecognition) of a contract containing an obligation for an entity to purchase its own equity instruments for cash or another financial asset. It requires:

- A financial liability to be recognised initially at the present value of the redemption amount, reclassified from equity
- Reclassification of the financial liability to equity if the contract expires without delivery

<u>Staff recommendation</u>

To avoid the term 'reclassification' being used inconsistently in IAS 32 with the existing requirements for reclassification of puttable instruments and obligations arising on liquidation and the proposed amendments on reclassification, the staff recommend replacing 'reclassified' with 'transferred' and 'reclassification' with 'transfer' in IAS 32:23.

The staff recommend reclassification at the date of the change in circumstances. However, the staff recommend asking a question in the forthcoming ED to see if there are any practical considerations which would affect an entity's ability to determine the date of a change in circumstances or to reclassify at that date.

Classification and Presentation: Sweep issues (Part B) (Agenda Paper 5B)

This paper covers sweep issues on 'the effects of laws on the contractual terms' and 'obligations to redeem own equity instruments'. It also covers a sweep issue on presentation.

The effects of laws on the contractual terms

In December 2021, the IASB tentatively decided to propose amendments to IAS 32 to require an entity to classify financial instruments as financial liabilities or equity by considering:

- Terms explicitly stated in the contract that give rise to rights and obligations that are in addition to, or more specific than, those established by applicable law; and
- Applicable laws that prevent the enforceability of a contractual right or a contractual obligation

In July 2022, members of the Accounting Standards Advisory Forum (ASAF) disagreed with the tentative decision. The main concerns highlighted by ASAF members were that they thought there was inconsistency with current accounting principles, the framework is complex and may create unintended outcomes. They also questioned whether there is a difference between a contractual term and a legal term. Based on the feedback the staff think it is important to simplify the amendments.

The staff recommend simplifying the proposed principles, by only requiring that financial instruments are classified as financial liabilities or equity by considering enforceable contractual terms that give rise to rights and obligations that are in addition to, or more specific than, those established by applicable law.

Obligations to redeem own equity instruments

The staff received feedback that IAS 32:23 is not explicitly clear on where the remeasurement gains or losses on these financial liabilities are recognised, i.e. in equity or in profit or loss.

The staff recommend that IAS 32:23 explicitly requires remeasurement gains or losses on the financial liability to be recognised in profit or loss to avoid any lack of clarity and to reduce diversity in practice.

The staff also noted measurement of the financial liability recognised when applying IAS 32:23 was not addressed in previous meetings. IAS 32:23 requires the financial liability to be recognised at the 'present value of the redemption amount' and refers to IFRS 9 for the subsequent measurement of the financial liability and therefore questions have been raised on both initial measurement and subsequent measurement. The staff believe that these questions are beyond the scope of the current project. However, they recommend clarifying that the same measurement approach would apply initially and subsequently (i.e. the probability and estimated timing of the holder exercising the written put option is not considered in its initial and subsequent measurement.) In addition, they recommend removing the reference to IFRS 9 for subsequent measurement, as all financial instruments are in scope of IFRS 9.

The staff also noted that similar questions arise for initial and subsequent measurement of some financial instruments in the scope of IAS 32:25 (i.e. instruments containing contingent settlement provisions where the contingency is associated with the liability component).

Presentation sweep issue

IAS 32:41 states that gains and losses related to changes in the carrying amount of a financial liability are recognised as income or expense in profit or loss even when they relate to an instrument that includes a right to the residual interest in the assets of the entity in exchange for cash or another financial asset. Under IAS 1 the entity presents any gain or loss arising from remeasurement of such an instrument separately in the statement of comprehensive income when it is relevant in explaining the entity's performance. This is referring to IAS 1:85 which states that an entity shall present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance.

The staff recommend deleting the second sentence of IAS 32:41 to avoid any perceived duplication of requirements and instead add a cross-reference to IAS 1:85. However, the staff note that the requirement in IAS 1:85 would still apply, regardless of whether presentation or the reference IAS 1:85 is explicitly mentioned in this paragraph.

Presentation of equity instruments (Agenda Paper 5C)

The purpose of this paper is to ask the IASB for tentative decisions on proposed clarifications related to the presentation of equity instruments in the scope of IAS 32. Users of financial statements require information to be accessible and less confusing, a clearer distinction of the distribution of profits amongst holders of different types of equity instruments so that they can understand the effect other classes of equity instruments have on the returns to ordinary shareholders and transparency as to whether an entity has issued other instruments classified as equity without having to go through multiple notes to the financial statements to try and piece together the information needed to calculate ratios and information to understand the key features that lead to the classification as equity or financial liability so that they can perform their own analyses and valuations.

The staff note that the existing requirements in IAS 1 could be applied to meet the information needs of users of financial statements, however the staff believe that the existing requirements in IAS 1 should be amended so that amounts attributable to ordinary shareholders are more visible on the statement of financial position, the statement of comprehensive income and the statement of changes in equity.

The staff recommend that the IASB propose amendments that would require:

- Line items in the statement of financial position that present issued capital and reserves attributable to ordinary shareholders of the parent separately from issued capital and reserves attributable to other owners of the parent (paragraph 54(r) of IAS 1)
- The components of equity for the purposes of the statement of changes in equity to include each class of ordinary share capital separately from each class of other contributed equity (paragraph 108 of IAS 1)
- Profit or loss and comprehensive income for the period attributable to ordinary shareholders of the parent to be presented separately from the respective amounts attributable to other owners of the parent (paragraph 81B of IAS 1)
- Presentation in the statement of changes in equity or disclosure in the notes of the amount of dividends to ordinary shareholders separately from dividends to other owners during the period, and the related amount of dividends per share (paragraph 107 of IAS 1).

Business Combinations—Disclosures, Goodwill and Impairment

In this session, the IASB will decide on certain aspects of the proposed package of new disclosures, focusing on the application of the 'management approach'.

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.

In December 2022, the IASB agreed to move the project from the research programme to the standard-setting work plan.

The IASB's preliminary views required disclosure of information about the subsequent performance of 'strategically important' business combinations using what was described as a 'management approach'—namely, disclosing the information the entity's management (being at the level of the chief operating decision maker (CODM) as defined in IFRS 8) uses in assessing the subsequent performance of business combinations.

The purpose of this meeting to ask the IASB to make decisions about this management approach.

The management approach (Agenda Paper 18A)

In the DP, the IASB's preliminary views on the management approach would result in disclosures about the subsequent performance of only those business combinations reviewed by an entity's CODM.

Respondent's feedback was mixed regarding whether this was an appropriate level. Some respondents thought this was a practical, cost-effective approach, whilst others thought that using such a high level would result in some material information being omitted. Feedback also indicated that there is diversity in the frequency and type of information reviewed by CODMs between entities.

In this paper, based on concerns about the appropriateness of using CODM and the information that would be disclosed, the staff recommend that the IASB amends its preliminary view to specify that the information the entity is required to disclose about the subsequent performance of business combinations is that reviewed by entity management at the level of key management personnel as defined in IAS 24.

Other aspects of the management approach (Agenda Paper 18B)

In this paper, the staff provide analysis of feedback on other aspects of the management approach, namely:

- How long information should be required for
- Changing metrics used to monitor subsequent performance of a business combination
- Use of ranges for entity's targets
- Whether information should be limited to that about key objectives

How long information should be required for

In the DP, the IASB's preliminary view was that:

- If management continues to monitor whether the objectives of a business combination are being met, an entity should disclose information about the subsequent performance of that business combination for as long as the information remains necessary for users of financial statements to assess whether the original objectives of a business combination are being met (referred to as the 'core time period')
- If management does not monitor whether its objectives for a business combination are being met, the entity should disclose that fact and the reasons why it does not do so
- If management stops monitoring a business combination before the end of the second full year after the year in which the business combination occurs, the entity should disclose that fact and the reasons why it stopped monitoring the business combination (referred to as the 'overlay').

<u>The core time period</u>

Some respondents to the preliminary view agreed with the suggested approach, while others suggested that there should be a specified time period. The staff suggest that using a specified time period would not be appropriate. However, as a fixed time period would be arbitrary, may require entities who have integrated a business combination within the time period to prepare additional information for the purposes of the requirement, and would not accommodate the fact that different entities review business combinations differently.

The staff propose to clarify the core time period, explaining that an entity's management is considered to be monitoring whether the objectives of the business combination are being met if the entity's management is comparing actual performance in subsequent periods with the entity's objectives (and targets) for the business combination it established when entering into the business combination.

<u>The overlay</u>

Some respondents also noted that, although management may stop monitoring the performance of the business combination against the business plan developed during the acquisition process, the performance of the acquired business may be monitored as part of the entity's annual budgeting process.

In such circumstances, based on the preliminary view, an entity would be required to disclose only that management have stopped monitoring the business combination. Therefore, the staff suggest that the requirements could be expanded to require disclosure of information about actual performance using the metric set out in the year of acquisition if (and only if) information about actual performance using that metric is being received by the entity's management.

The staff recommend that the IASB:

- Proceed with the preliminary view to require an entity to disclose information about the subsequent performance of a business combination for as long as an entity's management continues to monitor whether the objectives of the business combination are being met
- Continue with the preliminary view that if an entity's management does not monitor whether its objectives for a business combination are being met, the entity should disclose that fact and the reasons why it does not do so
- Continue with the preliminary view that if an entity's management stops monitoring whether its objectives for a business combination are being met before the end of the second full year after the year of the business combination, that fact and the reasons why it has done so
- Propose an entity whose management stops monitoring the performance of a business combination before the end of the second full year after the year of the business combination be required to disclose information about actual performance using the metric set out in the year of acquisition if (and only if) information about actual performance using that metric is being received by the entity's management

Changing metrics

In the DP, the IASB's preliminary view was that an entity that changes the metrics by which it monitors the subsequent performance of a business combination should disclose:

- That it made the change
- The reasons for the change
- The revised metrics

However, based on analysis of feedback, the staff believe that the circumstances giving rise to such a situation would be relatively narrow, and therefore think it is not clear how beneficial such a requirement would be.

Therefore, the staff recommend that the IASB does not proceed with the preliminary view to require these disclosures.

Use of ranges

The IASB previously considered requiring an entity to disclose quantitative information about expected synergies, and previously noted that such information could be an 'estimated amount or range of amounts'.

However, the DP did not specify whether information about targets could also be disclosed as a range rather than a point estimate.

The staff therefore recommend that an entity should be permitted to disclose information about targets for a business combination using a range or a point estimate.

Key objectives

A common concern of respondents is that some of the disclosure requirements may require disclosure of commercially sensitive information.

The staff think that a factor contributing to this concern may have been the perception that disclose detailed information about an entity's objectives for a business combination are required.

The staff recommend that the IASB clarify that an entity would not be expected to disclose all objectives and targets for a business combination, and that information about an entity's objectives and targets for a business combination should focus only on the key objectives, being those that are critical to the success of the business combination.