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Meeting Summary

November 2022

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Overview

The IASB met in London on Tuesday 22, Wednesday 23 and Thursday 24 November 2022. The following topics were on the agenda.

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

The IASB discussed financial liabilities and own credit. The IASB concluded that it is satisfied that the project can be concluded. The next step will be the publication of a Report and Feedback Statement.

Dynamic Risk Management

The IASB discussed *managing equity* and *notional alignment of designated assets and liabilities*. The IASB decided that equity not be an eligible item in the DRM model. The IASB also agreed to amend its original tentative decision to not require the notionals of eligible assets, liabilities and future transaction for designation in the current net open risk position to be the same.

Rate-regulated Activities

At this meeting, the IASB continued redeliberating the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities*. The IASB decided that when there is a direct relationship between an entity's regulatory capital base and its property, plant and equipment and the regulatory agreement provides the entity with (a) both a debt and equity return on an asset not yet available for use, the entity must reflect in the statement of financial performance during the construction period only those returns in excess of the entity's capitalised borrowing costs; or (b) only a debt return on an asset not yet available for use, the entity must not reflect the return in the statement of financial performance during the construction period if the entity capitalises its borrowing costs.

Maintenance and consistent application

International Tax Reform (Pillar Two Model Rules)—the IASB decided to amend IAS 12 to introduce a temporary exception from accounting for deferred taxes arising from legislation enacted to implement the OECD's Pillar Two model rules (including any qualified domestic minimum top-up tax). The exception would apply until such time that the IASB decides to either remove it or make it permanent. *Supplier Finance Arrangements*—the IASB decided to proceed with its proposals in the ED with some changes.

Amendments to the Classification and Measurement of Financial Instruments

The IASB discussed a sweep issue related to *contractually linked instruments* and the derecognition requirements in IFRS 9 for the settlement of a financial asset or a financial liability via electronic cash transfers. The IASB decided to clarify that when determining whether a transaction is in the scope of the CLI requirements, an entity excludes any instruments held by the sponsor that has transferred the underlying assets to the issuer. For electronic transfers, the IASB also decided to clarify that an entity applies settlement date accounting when recognising and derecognising financial assets (except for regular way transactions) and financial liabilities. In relation to the accounting alternative for derecognising a financial liability before settlement date, the IASB decided to refine the criteria to require an entity to have no ability to withdraw, stop or cancel an electronic payment instruction; to have lost the practical ability to access the cash as a result of the electronic payment instruction; and the settlement risk associated with the electronic payment instruction to be insignificant.

Goodwill and Impairment

The IASB decided to retain the impairment-only model for goodwill.

Business Combinations under Common Control (BCUCC)

The IASB continued discussing the selection of the measurement method to apply to a BCUCC. The staff set out their initial views, but did not making any recommendations. The IASB agreed with the general direction set out in its preliminary views to, in principle, apply the acquisition method to a BCUCC that affects non-controlling shareholders but that the IASB should consider some potential exceptions. If the BCUCC does not affect non-controlling shareholders a book-value method would apply, with no exceptions.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

The IASB confirmed that the subsidiaries eligible to apply the Standard are a 'subsidiary at the end of the reporting period' that has an ultimate or intermediate parent that produces consolidated financial statements complying with IFRS Accounting Standards. The IASB also decided, by a bare majority, not to proceed with the proposal that the parent's consolidated financial statements are 'available for public use'.

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

In this session, the IASB discussed the last items on its PIR on IFRS 9—Classification and Measurement. In particular, the IASB discussed financial liabilities and own credit, and the staff asked the IASB whether they are satisfied that the project can be concluded.

Financial liabilities and own credit (Agenda Paper 3A)

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

At this meeting, the IASB discussed the feedback on the RFI concerning the clarity and suitability of the requirements for financial liabilities, including the presentation of own credit changes in other comprehensive income (OCI) for financial liabilities designated at fair value through profit or loss (FVTPL). As the feedback indicated that there are no fundamental questions, the IASB was asked to decide whether, and if so when, to take further action to respond to these findings.

Summary of general feedback

Most respondents said that the requirements for financial liabilities generally worked well, and that the requirement to present own credit risk in OCI is a welcome change compared to IAS 39.

However, a few respondents mentioned the difficulty of separating fair value changes resulting from changes in own credit risk from fair value changes associated with other risks. Respondents' views on potential actions needed were mixed, with some suggesting that the IASB provide illustrative examples while others suggested that all fair value changes should be recognised in OCI.

Those few respondents also suggested that the requirements for separating fair value changes resulting from changes in own credit risk should be extended to all financial liabilities that are measured FVTPL (instead of applying only to financial liabilities designated at FVTPL).

Staff analysis

Determining the effects of changes in own credit risk

The staff noted that the questions around how to determine the changes in fair value attributable to a financial liability's credit risk, are similar to the questions the IASB received on the 2010 ED Own Credit Risk Exposure Draft. The IASB responded at the time by clarifying the difference between creditworthiness of the entity and the credit risk of a liability (paragraph B5.7.13 of IFRS 9), and that a change in a liability's credit risk does not include changes in asset-specific performance risk (paragraphs B5.7.14 and B5.7.15 of IFRS 9).

Based on the feedback on the RFI, the staff is of the view that there are no fundamental questions about the suitability and clarity of the requirements for financial liabilities, including the presentation of changes in own credit risk in OCI. The staff therefore recommend that no further action is taken on this matter.

Requests to broaden the scope

The staff noted that paragraph BC5.53 of the Basis for Conclusions on IFRS 9 explains the IASB's rationale in developing the requirements of IFRS 9 that it would not be appropriate to present fair value changes on financial liabilities that are held for trading in OCI. The staff also notes that, when developing IFRS 3, the IASB concluded that all liabilities for contingent payments should also be accounted for at FVTPL as this would faithfully represent the fair value of the liability. The staff therefore recommend that no further action is taken on this matter.

IASB discussion

IASB members were overall supportive of the staff suggestions that no further action should be taken in relation to the questions about the determination of changes in the entity's own credit risk and about the scope of fair value through OCI (FVTOCI). One IASB member questioned the statement that the proposed criteria to derecognise a financial liability in case of settlement via electronic transfer could not be applied to receivables. The staff clarified that the concept of cash in transit is outside the scope of IFRS 9 and that it is part of the cash flow statement project. The staff also noted that in the previous meeting it was agreed that the transition provisions in the exposure draft would be retrospective application without requiring the restatement of comparative balances and, considering that the proposed amendment for cash flows is going to be included in the same exposure draft, it is going to have the same transition approach.

Responding to the feedback and next step (Agenda Paper 3B)

At this meeting, the IASB was asked to decide whether sufficient work has been completed to conclude the PIR and for the staff to prepare the Report and Feedback Statement on the PIR.

Staff analysis of the work undertaken

Following the publication of the RFI, the IASB members and the staff have undertaken outreach activities with a wide range of stakeholders and other consultative bodies, performed an academic literature review and summarised feedback on the RFI from 952 comment letters.

Questions in the RFI that did not require decisions by the IASB

Classification and measurement: Question 1 in the RFI about the respondents' application of the IFRS 9 classification and measurement requirements. The PIR feedback is positive and provided the same views and issues as the feedback the IASB has received previously through extensive dialogue with stakeholders both before and after IFRS 9 was issued. There were no application questions that required decisions by the IASB in relation to this question of the RFI.

Transition: Question 8 in the RFI about whether the transition requirements worked as intended and the transition disclosures achieved an appropriate balance between reducing costs and useful information. The IASB was not asked to make any decisions in relation to this topic since almost all respondents acknowledged that the requirements and reliefs provided on transition to IFRS 9 achieved a good balance between costs for preparers and benefits for users.

Questions in the RFI that require decisions by the IASB

At its meetings between April 2022 and October 2022 the IASB considered whether to take any action on matters identified in the PIR, for which the IASB's response to feedback received are presented below:

Classification and measurement: The IASB was not asked to make any decisions in relation to this question.

Business model for managing financial assets: No further action needed.

Contractual cash flow characteristics:

- ESG-linked features and contractually linked instruments: The IASB decided to start a standard-setting project to clarify particular aspects of the requirements for assessing the contractual cash flow characteristics of a financial asset
- Other application questions: Following consultation with ASAF members on the application questions, the IASB decided either to consider the matter as part of other standard-setting projects or take no further action

Equity instruments and OCI: The IASB decided not to make any changes to the requirements in IFRS 9 because it did not identify any evidence that there are fundamental questions about the suitability or clarity of the requirements or that the benefits to users of financial statements are significantly lower than expected. However, to improve the transparency of amounts presented in OCI, the IASB tentatively decided to propose amendments to IFRS 7.

Financial liabilities and own credit: Subject to IASB decision on Agenda Paper 3A of this meeting.

Modifications to contractual cash flows: The IASB decided to add a project on amortised cost measurement and modifications to its research pipeline.

Amortised cost and the effective interest method: The IASB decided to add a project on amortised cost measurement and modifications to its research pipeline.

Transition: The IASB was not asked to make any decisions in relation to this question.

Other matters

- Cash received via electronic transfer as settlement for a financial asset: The IASB tentatively decided to develop an accounting policy choice to allow an entity to derecognise a financial liability before it delivers cash on the settlement date when specified criteria are met
- Other application questions: For other application questions following consultation with ASAF members, the IASB decided to either consider the matter as part of other projects or take no further action

Next steps

The staff will prepare a Report and Feedback Statement (the report) on the PIR which will be reviewed by the IASB. The Due Process Oversight Committee (DPOC) will also be provided with a draft of the report. Once the DPOC is satisfied that the IASB has completed the review satisfactorily, the report will be published.

IASB discussion

IASB members discussed a summary of the response to feedback from the PIR.

IASB decision

All IASB members agreed that adequate work had been completed to conclude the PIR and that the staff can now prepare the report and feedback statement.

Dynamic Risk Management

In this session, the IASB discussed the first two topics for deliberations identified in the July 2022 meetings, i.e. managing equity and notional alignment of designated assets and liabilities.

Cover paper (Agenda Paper 4)

Following the decision to add the Dynamic Risk Management (DRM) project to its standard-setting programme in May 2022, the IASB discussed in July 2022 a list of outstanding topics to be considered further to complete the development of the DRM model. This month, the staff brought two papers to the IASB meeting covering the first two topics for deliberations.

Managing equity (Agenda Paper 4A)

The IASB introduced the concept of current net open risk position in November 2021 as the net open interest rate risk position (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. Despite the new name, the current net open risk position is simply the net risk position derived from assets that were previous in the assets profile, as well as the liabilities that were previously part of the target profile.

At this meeting, the IASB discussed whether equity should be eligible to be included in the current net open risk position, and the implications of a such decision to the DRM model. In the paper, the staff summarised the discussions to date and stakeholders' feedback on this topic and provided the staff analysis and the staff view on the inclusion of equity in the DRM model.

Staff recommendation

The staff concluded that designating equity is not necessary in the DRM model in order to reflect the actual repricing risk exposures, and the staff therefore did not recommend that the IASB includes equity as an eligible item in the DRM model.

IASB discussion

IASB members generally agreed with the staff recommendation. Many supported the view that the exposure arises from financial assets and liabilities. It was noted that some banks are currently

Notional alignment of designated assets and liabilities (Agenda Paper 4B)

At this meeting, the IASB will be asked to reconsider its tentative decision taken during the development of the DRM core model that the notionals (of what was originally called the asset and the target profile) are required to be the same. This is because of feedback received during the outreach on the DRM core model.

The staff analyses three approaches in the paper. The staff conclude that although none of the three approaches provides the perfect solution with regards to notional alignment, faithful representation of the economic phenomena and provision of relevant information about an entity's interest rate risk management activities can be best achieved by not requiring notional alignment for the current net open risk position.

Staff recommendation

The staff recommend that the IASB amends its original tentative decision to not require the notionals of eligible assets, liabilities and future transaction for designation in the current net open risk position to be the same.

Rate-regulated Activities

In this session, the IASB continued its discussions on total allowed compensation. In particular, the IASB discussed the interaction between the IASB's tentative decision on regulatory returns on an asset not yet available for use and an entity's capitalisation of borrowing costs to construct that asset.

Cover note (Agenda Paper 9)

At this meeting, the IASB continued redeliberating the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (ED). The staff prepared two papers relating to total allowed compensation.

Capitalised borrowing costs (Agenda Paper 9A)

This paper included staff analysis and recommendations about the interaction between the IASB's tentative decision on regulatory returns on an asset not yet available for use and an entity's capitalisation of borrowing costs to construct that asset.

Staff recommendations

The staff recommended that the final Accounting Standard require that, when there is a direct relationship between an entity's regulatory capital base and its property, plant and equipment and the regulatory agreement provides the entity with:

- Both a debt and equity return on an asset not yet available for use, the entity shall reflect in the statement of financial performance during the construction period only those returns in excess of the entity's capitalised borrowing costs

- Only a debt return on an asset not yet available for use, the entity shall not reflect the return in the statement of financial performance during the construction period if the entity capitalises its borrowing costs

IASB discussion

IASB members acknowledged that the previous decision (i.e. cost for debt funding during the construction phase is part of the allowable cost) works in most cases, but there are particular fact patterns in which it does not work. It was therefore acknowledged that the previous decision should be refined to address these fact patterns. However, most IASB members acknowledged that this should not be achieved by amending IAS 23. As a side note, some IASB members spoke in favour of retiring IAS 23. It was, however, acknowledged that this was not an appropriate discussion for this session.

One IASB member said that it seems that, given the decisions to date on allowable compensation, a direct relationship between an entity's regulatory capital base and its property, plant and equipment is not desirable to have. The decision as to whether that direct relationship exists is therefore important. One IASB member replied that a direct relationship is a matter of fact and not a choice. The staff added that the decisions to date are in keeping with what entities already do, so the staff would not see that having a direct relationship is onerous. An IASB member confirmed that what the IASB decided so far is very close to US GAAP.

This discussion caused the Chair to pause and say that if entities are doing it already, does it need to be fixed for this small population of fact patterns where the previous IASB decision does not work. Educational material and communications could solve the issue with the same effect. One IASB member replied that the Consultative Group for Rate Regulations supports the fix, and it should therefore be made.

The Chair said that, in general, the IASB needs to think about how to order the requirements, i.e. whether an entity should apply all other IFRS Accounting Standards first, and then the Standard on rate regulation, or the other way around. One IASB member replied that often rate-regulated activities are just one activity of a group and they would therefore apply all other IFRS Accounting Standards anyway for their other activities. The Chair acknowledged this but said that many of the entities that have rate-regulated activities are SMEs.

IASB decision

All IASB members supported the staff recommendation.

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

This paper includes the summary notes and the material prepared for the Consultative Group for Rate Regulation (CGRR) meeting held on 4 October 2022 dealing with the topic analysed in Agenda Paper 9A.

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

This paper was not discussed.

Maintenance and consistent application

In this session, the IASB discussed a potential standard-setting project on the international tax reform and the feedback received on its exposure draft on supplier finance arrangements.

Cover paper (Agenda Paper 12)

In this session, the IASB discussed a potential standard-setting project on the international tax reform and the feedback received on its exposure draft on supplier finance arrangements.

International Tax Reform—Pillar Two Model Rules—Potential standard-setting project (Agenda Paper 12A)

In October 2021, more than 135 countries and jurisdictions—representing more than 90% of global GDP—agreed to a major international tax reform that introduces a global minimum tax for large multinational enterprises (MNEs). These countries and jurisdictions joined the OECD/G20 *Inclusive Framework on Base Erosion and Profit Shifting* statement on a two-pillar solution to address the tax challenges arising from the digitalisation of the economy. The two-pillar solution comprises:

- Pillar One—which aims to ensure a fairer distribution of profits and taxing rights among countries for the largest MNEs
- Pillar Two—which aims to put a floor on tax competition by introducing a global minimum corporate tax rate set at 15% for large MNEs

In December 2021, the OECD released the Pillar Two model rules, also referred to as the 'Global Anti-Base Erosion' or 'GloBE' rules. These rules aim to ensure large MNEs pay a minimum amount of tax on income arising in each jurisdiction in which they operate. The rules provide a template that jurisdictions can translate into domestic tax law.

The Pillar Two model rules are intended to be implemented as part of an agreed-upon common approach and introduced via domestic tax law by 2023. The IASB has been informed that some jurisdictions are expected to enact the rules as early as the first half of 2023, although this is still uncertain.

In this session, the staff provided an overview of the Pillar Two model rules, discuss the potential implications of the rules on the accounting for income taxes applying IAS 12, provide the staff's analysis of whether standard-setting is needed in response to the imminent implementation of the rules, and ask the IASB whether it agrees with the staff recommendation to undertake narrow-scope standard-setting.

Staff recommendations

The staff recommended that the IASB amend IAS 12 to:

- Introduce a temporary exception from accounting for deferred taxes arising from legislation enacted to implement the OECD's Pillar Two model rules (including any qualified domestic minimum top-up tax). The exception would apply until such time that the IASB decides to either remove it or make it permanent.
- Require an entity to disclose:
  - Whether it is in the scope of the Pillar Two model rules and whether it operates in low-tax jurisdictions
  - The fact that it has applied the exception
  - Its current tax expense related to Pillar Two top-up tax
- Require entities to apply the amendments to IAS 12 immediately upon their issuance and retrospectively in accordance with IAS 8

Addendum to the agenda paper

After the meeting on 22 November, the staff added an addendum to the agenda paper with regard to the staff recommendation to require an entity to disclose whether it is in the scope of the Pillar Two model rules and whether it operates in low-tax jurisdictions. The purpose of this addendum was to explore alternatives to that recommendation that could balance the concerns raised by IASB members at the 22 November meeting.

Staff recommendation

In the addendum, the staff recommended amending IAS 12 to require an entity to disclose, in pre-effective date periods:

- Information about legislation enacted—or substantively enacted—to implement the Pillar Two model rules in jurisdictions in which the entity operates
- Whether the entity:
  - Operates in jurisdictions it reasonably expects to be low-tax jurisdictions based on the specific requirements of the Pillar Two model rules; or, alternatively
  - Operates in jurisdictions in which its effective tax rate (calculated based on IAS 12 requirements) is below 15% for the current period

The staff further asked whether the IASB wishes to amend IAS 12 to require entities to disclose additional information—described as alternatives A, B or C below—in pre-effective date periods? If 'yes', the staff asked whether the IASB wishes to require the disclosure or provide the exemption as set out below:

Alternatives A, B or C:

- Alternative A—Disclose the low-tax jurisdictions in which an entity operates
- Alternative B—Disclose the accounting profit before tax, the income tax expense and the resulting weighted-average effective tax rate for all low-tax jurisdictions in aggregate. In other words, an entity would be required to disaggregate information—already disclosed in the effective tax rate reconciliation—for (i) all low-tax jurisdictions in aggregate, and (ii) all non-low-tax jurisdictions in aggregate
- Alternative C—Disclose the accounting profit before tax, the income tax expense and the resulting effective tax rate for each low-tax jurisdiction. In other words, an entity would be required to disaggregate information—already disclosed in the effective tax rate reconciliation—for (i) each low-tax jurisdiction, and (ii) all non-low-tax jurisdictions in aggregate

Disclosure or exemption:

- Disclosure: Require an entity to disclose if the work it has already done in preparing to comply with the Pillar Two model rules indicates that there could be jurisdictions in which it could be exposed to paying top-up tax in addition to those identified as having an effective tax rate below 15% applying IAS 12 requirements
- Exemption: exempt an entity from disclosing any of the information discussed in the agenda paper if it has disclosed more useful information—based on the Pillar Two model rules—about its exposure to paying top-up tax either in the financial statements or elsewhere, in a statement such as management commentary, that is available to investors on the same terms as the financial statements and at the same time

IASB discussion

At the beginning of the meeting, the Chair reminded the IASB that this project is time critical and therefore, as much as he would like it, there is not enough time to analyse and address all stakeholder concerns that have been raised to the IASB. This project is also not the place to solve all shortcomings of IAS 12. Instead, the objective of the project is to address the issue at hand, i.e. the incoming new global tax rules, as best the IASB can in the short amount of time available. IASB members acknowledged this and generally agreed with the recommendation to introduce the temporary exception from accounting for deferred taxes arising from legislation enacted to implement the OECD's Pillar Two model rules.

However, IASB members had mixed views about the additional disclosure requirements recommended by the staff. Some IASB members held the view that the existing disclosure requirements in IAS 12 would be sufficient to provide users with the necessary information. However, others said that additional disclosure requirements are required.

Many IASB members said that it would be very difficult for entities to disclose whether they will be subject to the top-up tax. Especially the term 'reasonable expectation' was a concern as it had not been used in IFRS Standards before. One IASB member said that for jurisdictions that have a tax rate below 15%, it would be simple. However, in jurisdictions with a tax rate of higher than 15%, the entity could still have an effective tax rate of below 15%, for example if it receives tax credits.

One IASB member said that it will also be very challenging for entities to predict the effective tax rate. If it predicts a range for a jurisdiction and it is, say 14.5%-15.5%, the question is whether the entity would then have to disclose that jurisdiction as a low tax jurisdiction. Even if an entity could arrive at a rate, it would be completely arbitrary and would not have any predictive value for what the actual tax rate will be.

One IASB member asked whether predicting if a jurisdiction is a low-tax jurisdiction would be achieved by using forward-looking information. The staff replied that this is not the case and it would be predicted based on current information. If an entity wanted to provide a prediction using forward-looking information, it could do so in its management commentary. There was also some discussion on what the time horizon for such a prediction would be.

There was significant discussion around whether there should be a disclosure for current tax once the legislation is effective, and whether that should be the same information as for deferred tax. The staff replied that what the entity needs to disclose for current tax is a matter of fact, i.e. a calculation of what it expects in the current year. In that year, the entity will already know which of its subsidiaries will be subject to top-up tax. However, for deferred tax, entities will have to make that calculation ahead of knowing the tax rates and therefore it is much more difficult to provide that information. It follows that the required information for deferred tax should be much less detailed than that for current tax.

When discussing the potential amendment to IAS 12 to require entities to disclose additional information, most IASB members spoke in favour of Alternatives A and B, while Alternative C received only some support. Particularly Alternative B was supported as the pre-tax profit was the best starting point in the view of some IASB members.

However, one IASB member said that Alternative C would result in the most useful information, and the data needed for that information is already available. Some IASB members replied that this could result in entities having to disclose commercially sensitive information to which the IASB member who preferred Alternative C replied that an exemption from disclosing commercially sensitive information could be considered. Another IASB member said that Alternative C with the modification to provide the information in aggregate could solve the issue of commercial sensitivity. Other IASB members said that Alternative C would require information far beyond what is currently required, and this would not be appropriate.

The Chair suggested that a combination of Alternatives A and B could be considered. One IASB member spoke vehemently against any of the alternatives as the information produced by the alternatives would not be a prediction of what the actual effective tax rate would be when the legislation comes into effect. It would be mixing local tax rules with OECD tax rules. However, other IASB members disagreed and said that some information is better than no information. Including the alternatives in the Exposure Draft (ED) would be helpful to initiate conversations with stakeholders.

As with regard "disclosure or exemption", most IASB members did not support exemption. One IASB member said that the objective of the IASB should be to word the requirements in a way that they result in the most useful information for users. If successful, this would mean that there could not be any better information elsewhere. In addition, the information should be provided fully in the financial statements and not in management commentary. Incorporation by cross-reference would also be difficult as it is unclear whether auditors would have to audit the information that is included by cross-reference and therefore not required by IAS 12.

The IASB then discussed the effective date. One IASB member said that he agreed with 'effective on issuance' for the temporary exception but not for additional disclosures. Entities would need some time to gather data for the disclosures. The staff agreed and said that the idea was that entities apply the temporary exception immediately, including the disclosure that the temporary exception has been applied. However, for the additional disclosures they recommend an effective date for annual periods beginning on or after 1 January 2023. In that case, if the ED was published in the second quarter of 2023, it would earliest be applied in 31 December 2023 reports, which gives entities at least six months to gather the data. One IASB member asked whether this would be unfairly beneficial for entities with, say, a 30 November year end, as they would only have to provide the disclosures in the 30 November 2024 report, and, because of that, might not even have to do pre-effective period disclosures. The staff replied that this would apply to all amendments the IASB issues and was therefore not seen as a problem.

IASB decision

All IASB members voted in favour of:

- Introducing the temporary exception
- Requiring entities to apply the proposed amendments to IAS 12 immediately upon their issuance and retrospectively in accordance with IAS 8
- Requiring information in pre-effective periods about legislation enacted—or substantively enacted—to implement the Pillar Two model rules in jurisdictions in which the entity operates

9 of the 11 IASB members voted in favour of requiring information in pre-effective date periods about whether the entity:

- Operates in jurisdictions it reasonably expects to be low-tax jurisdictions based on the specific requirements of the Pillar Two model rules; or, alternatively
- Operates in jurisdictions in which its effective tax rate (calculated based on IAS 12 requirements) is below 15% for the current period

On the alternatives proposed by the staff on disclosure of additional information, the IASB voted as follows:

- 8 of the 11 IASB members supported Alternative A
- 9 of the 11 IASB members supported Alternative B
- Only 2 of the 11 IASB members supported Alternative C

The vote allowed for supporting more than one alternative to gauge whether a combination of alternatives would be possible.

On whether the IASB should require disclosure or provide an exemption, the IASB voted as follows:

- 10 of the 11 IASB members supported the disclosure
- None of the IASB members supported the exemption

All IASB members voted in favour of a 60-day comment period, subject to approval from the Due Process Oversights Committee, which, in the meanwhile, has been obtained.

All IASB members confirmed that due process has been served for the upcoming ED and gave permission to the staff to start the balloting process.

Two IASB members indicated that they may dissent from publishing the ED, if the ED would not, in sufficient detail, explain the discussions that were held at the IASB and the concerns that were raised by some IASB members with regard to the additional disclosure requirements. They emphasised that they did not object to providing the temporary exemption.

Supplier Finance Arrangements—Cover Paper (Agenda Paper 12B)

The purpose of this meeting was to provide the IASB with the staff's analysis and recommendations on how to proceed on the Exposure Draft (ED) *Supplier Finance Arrangements* and ask the IASB whether it agrees with the staff recommendations.

Summary of recommendations

The staff recommended that the IASB proceed with its proposals in the ED with the following changes:

- For scope—revise one aspect of the scope and consider in drafting whether to add examples to illustrate the types of payment arrangements or instruments that are outside the scope of the disclosure requirements
- For the disclosure objective—add a reference to liquidity risk and risk management
- For the level of aggregation—change the proposed level of aggregation to require an entity to aggregate information provided about its supplier finance arrangements (SFAs) and disaggregate particular information—when required—to not omit or obscure material information;
- For the disclosure requirements—refine the requirements to disclose terms and conditions, the carrying amount and presentation of financial liabilities that are part of SFAs, and the range of payment due dates of trade payables that are not part of these arrangements
- For examples added to IAS 7 and IFRS 7:
    - Not proceed with adding an example of a non-cash change to IAS 7 and instead require disaggregation of particular information including the effect of non-cash changes
    - Not proceed with adding an example to paragraph B11F(a) of IFRS 7

IASB discussion

There was no discussion on this paper.

Suppler Finance Arrangements—Project Approach (Agenda Paper 12C)

This paper set out the staff's analysis and recommendations having considered comments received on the approach taken in the ED to address information needs of users of financial statements (investors) by adding disclosure requirements about an entity's supplier finance arrangements (SFAs).

Respondents' feedback

Most respondents said there is a need to improve disclosure about an entity's SFAs. A few respondents disagreed with the need for, or expressed concerns about, the project. Some of these respondents said the current disclosure requirements are sufficient and adding new specific disclosure requirements each time there is a 'gap' in the requirements may not be the most efficient way to proceed.

Many respondents suggested that the IASB either expand the scope of the current project or pursue a future project to address classification and presentation of liabilities and cash flows associated with SFAs. These respondents said additional work is needed on classification and presentation to enhance transparency and consistency in application.

Staff recommendations

The staff recommended that the IASB:

- Proceed with adding disclosure requirements about SFAs to IFRS Accounting Standards
- Make no change to the approach to this narrow scope, disclosure-only, project

IASB discussion

IASB members expressed support for the way the project was managed and agreed with the staff recommendations. They agreed with the focus being on the disclosure.

IASB decision

The IASB agreed unanimously to support the staff recommendations.

Suppler Finance Arrangements—Scope (Agenda Paper 12D)

This paper set out the staff's analysis and recommendations having considered comments received on the scope of the proposals in the ED.

Summary of feedback

Many respondents agreed with the IASB's approach for describing SFAs and with the proposed description itself. Some respondents suggested changes to the proposed description. The staff analyse the main suggested changes as follows:

- Adding characteristics
- Clarifying the term 'finance providers'
- Clarifying the phrases 'finance providers offering to pay amounts an entity owes its suppliers' and 'the entity agreeing to pay the finance providers'
- Restricting the scope
- Other comments

Staff recommendations

The staff recommended that the IASB:

- Make no change in response to suggestions to add characteristics
- Make no change to further define or describe 'finance providers'
- Make no change to the scope related to suppliers financing their receivables
- Revise the scope to specify that an SFA is characterised by the entity 'agreeing to pay according to the terms and conditions of the arrangement' rather than 'agreeing to pay the finance providers'
- Make no change to introduce scope restrictions based on:
    - Particular effects—or degrees of effect—of an arrangement as determined by the entity
    - Application of the derecognition requirements in IFRS 9 Financial Instruments
- Make no change to add explicit scope exclusions for arrangements involving particular types of payment instruments—and consider in drafting whether to add examples to the scope paragraph to illustrate the types of payment arrangements or instruments that are outside the scope of the disclosure requirements

IASB discussion

IASB members expressed agreement that examples would be helpful to support the disclosure requirements. One IASB member said that the recommendation to revise the scope to specify that an SFA is characterised by the entity 'agreeing to pay according to the terms and conditions of the arrangement' rather than 'agreeing to pay the finance providers' is particularly helpful. Another IASB member expressed concern that it may be interpreted such that an SFA, which was determined to be a debt arrangement, is not within the scope of the disclosure requirements. However, the intention was that they would be. It was suggested to include an example in the ED which clarifies this.

IASB decision

All IASB members supported the staff recommendation.

Suppler Finance Arrangements—Disclosure objectives and requirements (Agenda Paper 12E)

This paper set out the staff's analysis and recommendations having considered comments received on the proposed disclosure objective and requirements in the ED.

Respondents' feedback

Most respondents agreed (or did not disagree) with the proposed disclosure objective.

<u>Materiality judgements</u>

A few respondents suggested that the IASB include a reference to 'materiality' to avoid entities providing excessive information. A preparer said the disclosure objective requires entities to predict what information investors may need and this 'second-guessing' imposes undue burden on entities. One respondent questioned why the IASB proposed to make use of a disclosure objective and requirements when it had not finalised the project Disclosure Initiative: Targeted Standards-level Review of Disclosures (TSLR).

<u>Liquidity risk and risk management and financial performance</u>

A few respondents suggested that the disclosure objective include the effects of SFAs on an entity's exposure to liquidity risk and risk management. A few other respondents suggested that the disclosure objective include the effects of SFAs on an entity's financial performance

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<u>Effects vs information to calculate effects</u>

A few respondents, including investors, suggested that the IASB require an entity to disclose particular effects of SFAs rather than provide information to be used to calculate those effects. These respondents suggested, for example, that an entity disclose the effect of SFAs on its operating cash flows, or on the component of trade payables that is akin to bank debt and the associated effect on operating cash flows. Respondents said this approach would simplify the proposals and would avoid providing investors with 'raw data' and expecting them to do their own calculations.

Summary of staff recommendations

The staff recommended that the IASB:

- For the disclosure objective:
  - Not add a reference to 'materiality'
  - Add a reference to liquidity risk and risk management
  - Not add a reference to the effects of SFAs on an entity's financial performance
  - Proceed with requiring disclosure of information to be used by investors to calculate effects, rather than requiring disclosure of the effects

- For the level of aggregation—require an entity to aggregate information provided about its SFAs and disaggregate particular information—when required—to not omit or obscure material information
- For disclosure of the terms and conditions—add the word 'key' to the requirement to disclose the terms and conditions, and not prescribe a list of terms and conditions to be disclosed
- For disclosure of the carrying amount and presentation of financial liabilities that are part of SFAs:
    - For the statement of financial position—clarify that if the carrying amount of financial liabilities that are part of SFAs is presented in more than one line item, an entity would disclose each line item and the associated carrying amount presented in that line item
    - For the statement of cash flows—not add a requirement for an entity to disclose the line items in which changes in financial liabilities that are part of SFAs are presented
- For disclosure of the carrying amount of financial liabilities for which suppliers have already received payment from the finance providers—proceed with requiring disclosure of this information
- For disclosure of the range of payment due dates—clarify that when an entity discloses the range of payment due dates of trade payables that are not part of an SFA—in comparison to the range of payment due dates of financial liabilities that are part of an SFA—the trade payables and financial liabilities should be on a comparable basis, such as within the same business line or jurisdiction
- For comparative information—proceed with requiring disclosure of quantitative information as at the beginning and end of each reporting period

IASB discussion

Generally, IASB members expressed agreement with the staff recommendations. The debate centred on two of the recommendations which were more contentious. These were the recommendation to add the word 'key' in reference to the requirement to disclose terms and conditions and the recommendation to disclose liabilities already settled by the financer.

Objections were raised to the use of the word 'key' on the basis that it undermined the importance of the disclosure and it is not clear if this means terms must be material. Views were expressed that use of the word 'key' in IFRS 16 was a bad precedent and its use in the standard would not support the objectives.

With regards to the recommendation to disclose liabilities already settled by the financer, one IASB member expressed concerns on a practical and conceptual level, which mirrored concerns raised by a number of other members. Practically, it would be costly for entities to obtain the information from the financing entity and entities would also need to perform control assessments and other procedures to support the disclosure. Conceptual concerns were that entities are not generally expected to report on transactions to which they are not party. One member also noted that the FASB had considered the same requirement and concluded that the disclosure did not meet cost benefit criteria therefore would not be required. A question was therefore raised as to why the staff recommendation went in the opposite direction.

It was discussed that staff had engaged extensively with finance providers, and the feedback was that they would not anticipate barriers to providing entities with the required information in aggregate, although it would be more challenging on a per supplier basis. The staff noted that the disclosure did not require to disaggregate the information by supplier. Therefore, the staff did not foresee high practical difficulties in implementing the requirements. Stakeholders engaged had expressed the strong opinion that this information was of upmost importance for meeting the objectives of the requirements. It was discussed that one of the driving forces for the amendments was due to corporate failures, which occurred due to supplier financing arrangements being withdrawn. Knowing what payments would have been made to suppliers was seen as vital for investors to be able to understand the liquidity risk of an entity in the event that financing is withdrawn, highlighting the benefit of this requirement.

IASB decision

IASB members supported the staff recommendations unanimously, except as follows:

- 6 of the 11 IASB members voted against using the word ‘key’ in reference to the requirement to disclose terms and conditions and instead voted in favour of revising the wording to emphasise the terms that should be disclosed
- 9 of the 11 IASB members voted in favour of disclosing liabilities already settled by the financer

Suppler Finance Arrangement—Examples and other comments (Agenda Paper 12F)

Non-cash changes in IAS 7

Most respondents agreed with the proposals, largely for the reasons explained in the ED, to add SFAs as an example within the requirements to disclose information about changes in liabilities arising from financing activities.

Many respondents raised questions about the applicability of the non-cash changes example to operating cash flows. In particular, many respondents said proposed paragraph 44B(da) focuses only on the effect of SFAs on the changes in liabilities arising from financing activities; that paragraph either is unclear about, or explicitly excludes, the corresponding effect on changes in liabilities arising from operating activities. Some respondents suggested that the IASB address this by extending the disclosure requirement for non-cash transactions in paragraph 43 of IAS 7 to operating transactions.

Liquidity risk and concentrations of risk in IFRS 7

Most respondents agreed with the proposals, largely for the reasons explained in the ED, to add SFAs as an example within the requirements to disclose information about an entity’s exposure to liquidity risk.

Staff recommendations

The staff recommended that the IASB:

- Not proceed with the proposed change to paragraph 44B of IAS 7 to provide SFAs as an example of a non-cash change in liabilities arising from financing activities. The staff make an alternative recommendation in Agenda Paper 12E for this meeting
- Proceed with the proposed amendments to paragraphs B11F(j) and IG18 of IFRS 7 but not proceed with adding an example to paragraph B11F(a) of IFRS 7
- Make no changes in response to feedback to be more prescriptive about the required disclosures of liquidity risk and concentrations of risk arising from SFAs

IASB discussion

IASB members expressed a desire for the wording in IAS 7 to be consistent with that of IFRS 7 and it was expected that the treatment in the cash flow statement as operating or financing cash flows would follow the treatment in the balance sheet with regards to whether the SFA liability was a payable or debt.

IASB decision

6 of the 11 IASB members voted against proceeding with the proposed amendments to paragraph 44B of IAS 7.

All IASB members voted in favour of proceeding with the proposed amendments to paragraphs B11F(j) and IG18 of IFRS 7—without making those proposed amendments more prescriptive.

All IASB members agreed not to proceed with the proposed amendments to paragraph B11F(a) of IFRS 7.

Amendments to the Classification and Measurement of Financial Instruments

In this session, the IASB discussed a sweep issue on the proposed amendments to IFRS 9 for contractually linked instruments, amendments resulting from an IFRS Interpretations Committee submission about the settlement of a financial asset or a financial liability via electronic cash transfers, and due process steps for the upcoming exposure draft on amendments to the classification and measurement of financial instruments.

Contractually linked instruments—sweep issue (Agenda Paper 16A)

In May 2022, the IASB decided to start a standard-setting project to clarify particular aspects of the IFRS 9 requirements for assessing a financial asset's contractual cash flow characteristics (i.e. the 'solely payments of principal and interest' (SPPI) requirements), including clarifying the scope and unique characteristics of contractually linked instruments (CLIs). In September 2022, the IASB tentatively decided that the unique characteristics of a CLI structure are the use of multiple CLIs with non-recourse features that establishes the prioritisation of payments through a waterfall payment structure and creates concentrations of credit risk resulting in a disproportionate allocation of losses between investors in the event of cash flow shortfalls.

However, after the tentative decision in September 2022, stakeholders asked how the non-recourse and CLI requirements are applied when there are only two debt instruments, and the borrower/sponsor (sponsor) of a special purpose entity (SPE) holds the junior debt instrument.

SPEs are used to obtain a loan from a bank that is secured by specified assets of the sponsor. Even though the loan is made to the SPE, the bank negotiates the contractual terms with the sponsor. These structures can be set up such that the lender has recourse to the sponsor and therefore will not be a CLI. Alternatively, the sponsors investments in the SPE could be in the form of equity and again the structure will not be a CLI as there are no 'multiple contractually linked instruments.'

However, if the sponsors investment in the SPE is a debt instrument, the structure might be considered a CLI, as it has multiple contractually linked instruments (senior and junior debt instruments), the debt could have non-recourse features, and there might be a waterfall payment structure.

The staff believe these lending arrangements are distinct from investments in CLIs as the ultimate counterparty to the lending bank is the sponsor. From the sponsor's perspective, the SPE will be consolidated, resulting in the junior debt instrument being eliminated and the financing provided by the bank as the only debt instrument outstanding. The staff therefore believe that the debt instrument held by the sponsor does not constitute a separate debt instrument or 'tranche' when assessing whether a particular structure is within the scope of the CLI requirements.

Staff recommendation

The staff recommended clarifying that when determining whether a transaction is in the scope of the CLI requirements, an entity excludes any instruments held by the sponsor that has transferred the underlying assets to the issuer.

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

IASB discussion

IASB members agreed with the staff analysis.

The paper discussed that if the sponsor is required or has the option to either increase its debt or equity investment then this could be indicative that the investor has recourse. An IASB member asked what the staff's intention was with this element and whether it would be built into the description of 'non-recourse'. The staff noted that they would like to provide more clarity on this and will build it into the standard or the Basis for Conclusions (BC). However, it was noted that if the investor has the option to increase debt or equity, this may not necessarily be considered recourse.

IASB decision

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

Accounting policy choice for derecognition of financial liabilities (Agenda Paper 16B)

In October 2022, the IASB considered possible standard-setting options for applying the derecognition requirements in IFRS 9 to the settlement of a financial asset or a financial liability via electronic cash transfers. The IASB tentatively decided to develop an accounting policy choice to allow an entity to derecognise a financial liability before it delivers cash on the settlement date when specified criteria are met.

The purpose of this paper was to further develop the criteria and scope of such an accounting policy choice.

Staff recommendation

To improve the consistent application of the requirements in IFRS 9, the staff recommend clarifying that an entity applies settlement date accounting when recognising and derecognising financial assets (except for regular way transactions) and financial liabilities.

With regards to the accounting alternative for derecognising a financial liability before settlement date, the staff recommended refining the criteria to require:

- An entity to have no ability to withdraw, stop or cancel an electronic payment instruction
- The entity to have lost the practical ability to access the cash as a result of the electronic payment instruction and
- The settlement risk associated with the electronic payment instruction to be insignificant. For this to be the case, the payment system used must have the following characteristics: the period between the payment initiation date and settlement date is relatively short and is standardised for the particular payment system concerned and completion of the payment instruction follows a standard administrative process so that the debtor has reasonable assurance that the transfer will be completed, and the cash will be delivered to the creditor.

The staff also continue to be of the opinion that the scope of an accounting alternative must be deliberately limited to particular types of transactions such as electronic payment systems that meet the specified criteria without otherwise changing the general derecognition requirements in IFRS 9.

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

IASB discussion

A few IASB members did not agree with the limitation to particular types of transactions. However, they believed that from a practical standpoint this might not have a significant impact.

In the paper, the staff note that the requirement to apply settlement date accounting when recognising and derecognising financial assets and financial liabilities is within IFRS 9. However, there is widespread diversity in practice. Therefore, the staff intend to clarify this point in IFRS 9. The staff confirmed that this clarification will be within the standard or the application guidance.

The paper also noted that the staff do not believe that the refinements noted could apply to receivables. IASB members did not agree with this point. However, the paper and the clarifications specifically relate to financial liabilities.

IASB members asked the staff to ensure that the background to this project is provided in the BC to ensure it is clear as to why these clarifications are being provided and how the IASB have reached their conclusion.

The staff asked the IASB if they agree that the same transition requirements being used for these clarifications as for the rest of the ED. IASB members requested that the staff include this as a question in the ED. IASB members noted that this could have significant impacts on corporates and therefore based on the responses may consider a different effective date for this clarification.

IASB decision

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

Due process steps (Agenda Paper 16C)

In October 2022, the IASB expanded the scope of its maintenance project for proposed narrow-scope amendments to IFRS 9 and IFRS 7. The IASB tentatively decided on the following amendments:

- Clarification of:
    - The term 'basic lending arrangement' and how it applies to the assessment of whether a financial asset's contractual cash flows are solely payments of principal and interest (SPPI)
    - How to apply the SPPI assessment to financial assets with contractual terms that change the timing or amount of contractual cash flows
    - The term 'non-recourse' and factors to consider when performing the SPPI assessment on financial assets with non-recourse features
    - The scope of the requirements relating to CLIs and the nature of eligible instruments in the underlying pool
- Transition requirements for these clarifying amendments
- Additional disclosure requirements for financial instruments with contractual terms that could change the timing or amount of contractual cash flows
- Amendments to IFRS 7 for equity instruments to which the other comprehensive income (OCI) presentation option is applied, i.e. disclosure at the end of the reporting period of the aggregated fair value of such equity investments and of changes in the fair value of such equity investments recognised in OCI during the period
- Amendments to permit an accounting policy choice that allows an entity to derecognise a financial liability before it delivers cash on the settlement date when specified criteria are met (subject to the IASB agreeing with the staff recommendation in Agenda Paper 16B)

The staff asked the IASB if they agree with the staff recommendation to have a comment period of 120 days for the Exposure Draft (ED).

The staff asked if any of the IASB members dissent from the publication of the ED.

The staff asked for permission to begin the process for balloting the ED.

IASB discussion

One IASB member requested reducing the comment period from 120 days to 90 days, given the feedback regarding the urgency around accounting for ESG loans. However, overall the IASB and the staff concluded that given the number of different issues in the ED and the fact that it is not specifically about ESG loans the comment period should stay at 120 days.

IASB decision

11 out of 11 voted in favour of the comment period of 120 days and gave permission to begin the balloting process. No IASB members indicated that they plan to dissent from the publication.

Goodwill and Impairment

In this session, the IASB discussed the subsequent accounting for goodwill. In particular, the staff asked the IASB whether they want to retain the impairment-only model.

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 its October 2022 meeting, the IASB discussed feedback on its preliminary view to retain the impairment-only model and additional information or evidence and developments since the closure of the comment letter period for the DP on this topic.

The purpose of this meeting was to ask the IASB to tentatively decide whether to proceed with its preliminary view to retain the impairment-only model for the subsequent accounting for goodwill, or whether to explore reintroducing amortisation of goodwill.

Subsequent accounting for goodwill—Staff recommendation (Agenda Paper 18A)

In this paper, the staff set out their recommendation to the IASB.

The staff recommended that the IASB should proceed with their preliminary view to retain the impairment-only model, as their research had not gathered sufficient evidence that the reintroduction of amortisation would improve information provided to users or reduce the cost to entities of preparing financial statements.

The IASB were asked to vote on whether they agree with this recommendation. If they do not agree with the recommendation, and wish to explore further the reintroduction of amortisation, the IASB will be asked to vote on the objective of reintroducing amortisation, namely, improving information or reducing costs.

IASB discussion

IASB members generally agreed with the recommendation and rationale set out by the staff, observing that the entrenched views of stakeholders, users, and preparers that have not moved over the course of the discussion. IASB members also noted that, generally, the evidence obtained has not highlighted new or compelling information that will definitively convince proponents of the impairment-only approach.

Many IASB members commented that the best way forward with regard to current information and thinking is to improve the impairment test and disclosure requirements. However, one IASB member disagreed, highlighting that many respondents to the post-implementation review of IFRS 3 commented that they would prefer to reintroduce amortisation, and therefore that developing an amortisation model on the grounds of reducing costs of preparation of financial information should be explored.

IASB decision

When asked to vote, 10 of the 11 members of the IASB voted in favour of the staff recommendation to retain the impairment-only model for the subsequent accounting of goodwill.

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

This paper was a reproduction, for reference, of Agenda Paper 18B from the October 2022 IASB meeting.

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.

Improving information

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

Reducing costs

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

This paper was not discussed.

Business Combinations under Common Control

In this session, the IASB continued its discussions on the selection of the measurement method to apply to a business combination under common control.

Cover paper (Agenda Paper 23)

The IASB published Discussion Paper DP/2020/2 *Business Combinations under Common Control* (BCUCC) in November 2020, with a comment letter deadline of 1 September 2021. At its earlier meetings held in December 2021, January 2022 and March 2022, the IASB discussed the feedback received on the topics set out in the DP, the plan for deliberating the preliminary view and the overall project scope. In its June 2022 meeting, the IASB commenced deliberations on the preliminary views set out in the DP on selecting the measurement method to apply to a BCUCC, discussing, in particular, whether some or all BCUCCs are similar to or differ from IFRS 3 business combinations (BCs) user information needs.

The purpose of this session was for the IASB to continue discussing the selection of the measurement method to apply to a BCUCC.

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

Overview (Agenda Paper 23A)

As set out in the DP, the IASB's preliminary views about selecting the measurement method were:

- Neither the acquisition method nor a book-value method should be applied to all BCUCCs
- In principle, the acquisition method should be applied if a BCUCC affects non-controlling shareholders of the receiving entity (NCS), subject to the cost-benefit trade-off and other practical considerations
- The book-value method should be applied to other BCUCCs, including all combinations between wholly-owned entities

Approach to deliberations on selecting the measurement method

Following the IASB discussions at the June meeting, the staff have recommended a revised approach to deliberations and would now ask the IASB to tentatively decide how to select the measurement method considering all factors (for example, user information needs and the cost-benefit trade-off) collectively. This contrasts with the previously recommended two-step approach which proposed making a tentative decision conceptually as a first step, before considering practical constraints as a second step.

Next steps

The staff will discuss initial views with Accounting Standards Advisory Forum (ASAF) and the Emerging Economies Group (EEG) at their December 2022 meetings. The staff will present the feedback from these meetings to the IASB at a future meeting along with updated analysis and recommendations on selecting the measurement method.

Initial views—the principle (Agenda Paper 23B)

This paper explained the staff's initial views on the principle of which measurement method(s) should apply to BCUCCs. In summary, the staff agreed with the IASB's preliminary views to, in principle, apply the acquisition method to BCUCCs that affect NCS and a book-value method to BCUCCs that do not affect NCS. The staff acknowledged that there are certain disadvantages associated with this approach, such as a lack of comparability between all BCUCC transactions and potentially creating some structuring opportunities to structure BCUCCs with insignificant NCS.

IASB discussion

The majority of IASB members expressed general support for the proposed direction of travel of the project and that NCS should be a decisive factor when determining whether to adopt the acquisition method or the book value method.

One IASB member noted that an additional criterion should be added before determining whether NCS was affected to clarify whether the transaction that has taken place has changed the reporting entity or not in substance. This IASB member gave an example of when a new holding company is inserted above an existing entity in advance of an IPO, explaining how in this scenario, the reporting entity (being the new holding company) has changed, however the combined financial statements of the entity and the holding company are the same before and after the transaction, and therefore, in substance, there has been no change in the reporting entity.

Some IASB members disagreed with the conclusion that BCUCCs were similar to IFRS 3 BCs, noting that the intention, purpose and structure of BCUCCs can be very different to other BCs, and that the transactions are not carried out at arms-length. A number of IASB members also remarked that comparability should not be a key focus as there would never be complete comparability for all BCUCCs.

One IASB member commented that it should not be assumed that all investors prefer the fair value information provided by the acquisition method as there is significant evidence that this is not the case, particularly in relation to the valuation of certain intangible assets such as brand and customer relationships. Another IASB member agreed, noting that the information required by the acquisition method can be highly time consuming and costly for preparers, and therefore this method should only be required when there is certainty that it would be valued by users.

One IASB member expressed a view that reporting entities should be given the option of adopting the acquisition method as opposed to forcing the use of the book value method given that this would be fair and relevant as determined for other BCs under IFRS 3. Other IASB members expressed concern that this could lead preparers to carry out BCs with the sole intention of inflating net assets, potentially in order to acquire loan finance. However, one IASB member questioned how this would be any different from a preparer changing its accounting policy to revalue fixed assets previously recorded using the cost model.

The Chair enquired whether there was any indication of the proportion of BCUCCs that affected NCS versus those that did not and observed that it would be very useful to understand this in order to determine whether or not there is an issue with how to account for all BCUCCs or for a very small proportion. The staff responded that this information would be very difficult to establish however the research performed to date indicated that there was a mix of both types of transaction.

Initial views—exceptions (Agenda Paper 23C)

This paper explained the staff's initial views on whether, in some circumstances, a different method should apply. This included exceptions contained within in the IASB's preliminary views in the DP and other possible exceptions. The staff considered that for BCUCCs that do not affect NCS, there should be no exceptions. However, for BCUCCs that affect NCS, the staff proposed two potential packages of exceptions, under which the book value method would be used, for further consideration as follows:

- Package 1—optional exemption package
- Package 2—insignificant NCS package

IASB discussion

One IASB member expressed concern over the related party exception proposed in Package 1 whereby a receiving entity would be required to use the book value method if all NCS were related parties, noting that this assumed that all related parties had the same characteristics. However, that might not be the case in reality, for instance a related party could sit within the common control group, but alternatively could be an associate.

Some IASB members commented that further research was required in relation to the proposed exception related to government entities, particularly in countries where this was especially relevant. One IASB member queried why this was being considered for BCUCCs when it was not specifically addressed in IFRS 3.

Several IASB members expressed support, in theory, for Package 2 which provides an exception where NCS was deemed to be insignificant. However, some IASB members questioned how "insignificant" would be determined and noted that this could be a very difficult area to navigate given there are both quantitative and qualitative factors to be considered.

The Chair queried how the definition of "insignificant" would interact with other definitions such as "material" or "genuine". The staff responded that this term would likely be replaced with something more appropriate at a later stage in the project to try and eliminate any confusion.

Similarity to IFRS 3 Business Combinations (Agenda Paper 23D)

This paper analysed whether some or all BCUCCs are similar to or differ from IFRS 3 BCs. The staff's initial view was that the nature of all BCUCCs is similar to IFRS 3 BCs because the receiving entity gains control of a business it did not control before.

This paper was not discussed during the meeting.

User information needs (Agenda Paper 23E)

This paper analysed the composition and information needs of users in a BCUCC compared to an IFRS 3 BC. The staff's initial views were that firstly the project should not address the controlling party's information needs, and secondly that the common information needs of users is dependent on the composition of users. For a BCUCC that impacts NCS, the acquisition method meets those needs better than the book value method, however for a BCUCC that does not affect NCS, the information provided using either method could meet the common information needs of users.

This paper was not discussed during the meeting.

The cost-benefit trade-off (Agenda Paper 23F)

This paper explained the assumptions made by the staff in forming their initial views which were as follows:

- The costs of applying the acquisition method to a BCUCC will be comparable to the costs of applying the acquisition method to an IFRS 3 BC
- The costs of applying a book-value method to a BCUCC will depend on various factors but is expected to be less costly than applying the acquisition method in the main
- Applying the acquisition method to BCUCCs that affect NCS would generally meet the cost-benefit trade-off better than applying a book-value method
- Applying a book-value method to BCUCCs that do not affect NCS would generally meet the cost-benefit trade-off better than applying the acquisition method

This paper was not discussed during the meeting.

Structuring opportunities (Agenda Paper 23G)

This paper explained the initial views of the staff in relation to structuring opportunities which were as follows:

- Some structuring opportunities to qualify for a particular measurement method will exist unless the acquisition method applies to all BCUCCs, as well as to all IFRS 3 BCs
- The IASB's preliminary views on which measurement method to apply could create some opportunities to structure transactions to qualify for a particular measurement method

- How the acquisition method is applied to BCUCCs could create some structuring opportunities, particularly if the acquisition method were applied to BCUCCs between wholly-owned entities
- How a book-value method is applied to BCUCCs could also create some structuring opportunities

This paper was not discussed during the meeting.

Other considerations (Agenda Paper 23H)

This paper explored other areas related to this topic such as practical challenges faced in applying the acquisition method and how best to maximise comparability between all BCUCCs and IFRS 3 BCs.

This paper was not discussed during the meeting.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

In this session, the IASB discussed the scope of the new reduced disclosure Standard that will permit subsidiaries that are small and medium-sized entities (SMEs) to apply IFRSs but with reduced disclosure requirements.

Cover Paper (Agenda Paper 31)

Background

At its June 2022 meeting, the International Accounting Standards Board (IASB) agreed on a project plan for redeliberating the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (ED) towards developing an IFRS Accounting Standard (Standard).

At this meeting, the IASB continued its redeliberations considering feedback on aspects of the proposed scope of the draft Standard.

Scope of the draft Standard (Agenda Paper 31A)

Background

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.

In line with the project plan, the IASB was asked to discuss feedback on other aspects of the proposed scope of the draft Standard as set out in the ED, including:

- Whether subsidiaries are required to be a 'subsidiary at the end of the reporting period'
- Whether subsidiaries are required to have an ultimate or intermediate parent that produces consolidated financial statements that comply with IFRS Accounting Standards and are 'available for public use'

Staff analysis

Subsidiary at the end of the reporting period

- The request to permit an entity that has ceased to be an eligible subsidiary close to the end of the reporting period to apply the draft Standard was restricted to outreach events
- Whilst it could be argued the information needs of users are similar, the staff think if entities that have ceased to be subsidiaries at the end of the reporting period are permitted to apply the Standard, this is 'scope creep' on the project objective

- Furthermore, participants in outreach events did not suggest how the IASB should determine the period an entity would have ceased being an eligible subsidiary prior to the end of its reporting period. If the scope proposed in the draft Standard were changed, it is likely this period would be arbitrary and some may argue the period is unfair

<u>Ultimate or intermediate parent producing consolidated financial statements that comply with IFRS Accounting Standards</u>

- Interaction of the requirement with the project objective:
    - Permitting subsidiaries without public accountability to apply the Standard regardless of the GAAP applied by its parent entity deviates from the project objective
    - It is questionable whether the cost-benefit analysis would be similar if the subsidiary's parent entity does not comply with IFRS Accounting Standards because the subsidiary or the parent would have to maintain two sets of accounting records
    - Arguably, there may still be benefits to applying the Standard where IFRS Accounting Standards are required to be applied by all entities in a jurisdiction
- IFRS Equivalence:
    - The staff did not support the suggestion to permit subsidiaries without public accountability to apply the Standard if they apply a GAAP equivalent to IFRS Accounting Standards

<u>Available for public use</u>

- Use of 'available for public use' in other IFRS Accounting Standards:
    - The terms 'public use' and 'available for public use' are not defined in IFRS Accounting Standards
- Clarifying the requirement 'available for public use':
    - Providing guidance could have unintended consequences on the application of the term. For example, create conflict with existing regulations or practices
- Removing the requirement 'available for public use':
    - The *IFRS for SMEs* Accounting Standard does not require the ultimate or intermediate parent's consolidated financial statements to be 'available for public use'
    - Removing the requirement for the parent's financial statements to be 'available for public use' from the scope of the draft Standard may enable more subsidiaries to be eligible to apply the Standard and thereby benefit from the Standard

Staff recommendations

The staff recommended that the IASB:

- Confirms that subsidiaries eligible to apply the Standard:
    - Are a 'subsidiary at the end of the reporting period'
    - Have an ultimate or intermediate parent that produces consolidated financial statements complying with IFRS Accounting Standards
- Does not proceed with the proposal that the parent's consolidated financial statements are 'available for public use'

IASB discussion

<u>Subsidiary at the end of the reporting period</u>

Some IASB members expressed support to include some form of transitional provision to reduce the cost burden for reporting entities that cease to be qualifying subsidiaries part way through a reporting period, and/or the time pressure for entities that cease to qualify close to the end of the reporting period. Most IASB members, however, expressed a preference for retaining the requirement, primarily due to their concerns over setting an inherently arbitrary cut-off period and other technical challenges that would be encountered in the design of such a transitional a provision. Some IASB members questioned whether dropping the requirement would provide preparers any significant cost savings. It was generally agreed that the approach recommended by the staff avoided the need for any subjective interpretation.

Ultimate or intermediate parent producing consolidated financial statements that comply with IFRS Accounting Standards

Some IASB members highlighted the potential cost saving benefits of extending the scope of the new Standard to non-IFRS parents, noting that if the main purpose of the project is cost saving it would make sense to extend the scope. A number of IASB members had, however, always understood the scope of the project to be limited to subsidiaries of IFRS reporting entities and noted that the project may have reached different conclusions had it had a wider scope from the start. A number of concerns were raised about scope creep. It was noted that if the parent reported under another GAAP, the cost savings would not be so significant because the subsidiary would still need to maintain two sets of books for recognition and measurements purposes; one for its parent's GAAP and one for IFRS. A number of members raised the issue of IFRS equivalence and questioned whether the IASB was in a position to define this across a large number of potentially qualifying GAAPs. Some felt that this role was more appropriate to regulators.

Available for public use

There was no strong majority view on this topic, and some members reported that the debate had changed their views on the matter. A number of members highlighted the difficulty in defining "available for public use", notwithstanding that this terminology is already present in IFRS 10. It was noted that a recent review of IFRS 10 had not highlighted any particular concerns about interpretation of the term, whilst others noted that the term was generally seen as problematic. Some noted an apparent inconsistency in purpose between requiring qualifying subsidiaries to have IFRS reporting parents, whilst not requiring that entities accounts have to be available for public use. Balancing this, a number of members noted that the original cost saving objective of the project was not limited to IFRS groups that make their accounts available for public use.

IASB decision

10 out of 11 agreed with the staff recommendation to confirm that subsidiaries eligible to apply the Standard are a 'subsidiary at the end of the reporting period'.

11 out of 11 agreed with the staff recommendation to confirm that subsidiaries eligible to apply the Standard have an ultimate or intermediate parent that produces consolidated financial statements complying with IFRS Accounting Standards

6 out of 11 agreed with the staff recommendation to not proceed with the proposal that the parent's consolidated financial statements are 'available for public use'.