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Meeting Summary

July 2023

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The meeting agenda and all of the staff papers are available on the IASB website:
https://www.ifrs.org/news-and-events/calendar/2023/july/international-accounting-standards-board/

Overview

The IASB met in London from 25-27 July 2023. The following topics were discussed:

Dynamic Risk Management (DRM): The IASB made decisions on the potential designation of hedged exposures in the current net open risk position, and the implication of designating non-linear derivatives and 'off-market' derivatives in the DRM model.

Maintenance and consistent application: The IASB decided to add a research project to its work plan to explore whether narrow-scope amendments could be made to IFRS 9 with regard to the application of the 'own use' exception to some physical power purchase agreements (PPAs). The IASB also discussed the June 2023 *IFRIC Update*.

Equity Method: The IASB decided how to answer an application question relating to the assessment of impairment and to expand the project's scope for five of the application questions that were not selected but are considered resolved by the IASB's tentative decisions.

Business Combinations—Disclosures, Goodwill and Impairment: The IASB made decisions about which improvements to the impairment test to propose in the upcoming Exposure Draft and completed its discussions on proposals to improve information disclosed about business combinations.

Extractive Activities: The IASB received a summary of feedback on its Extractive Activities research project. The feedback relates to suggestions to improve disclosures about an entity's exploration and evaluation expenditure and activities that the IASB is exploring.

Primary Financial Statements (PFS): The IASB decided not to re-expose the proposals in the Exposure Draft *General Presentation and Disclosures*. The IASB also decided on transition requirements and gave staff permission to start the balloting process. The IASB decided to require entities to apply the new Standard for annual periods beginning on or after 1 January 2027 with early application permitted and to apply the new Standard retrospectively in accordance with IAS 8.

Provisions—Targeted Improvements: The IASB discussed stakeholder feedback on discount rates for provisions within the scope of IAS 37—specifically, on whether the risks reflected in the rate should include non-performance risk. No decision has been made. However, the IASB decided that IAS 37 should specify the types of costs to include in estimating that expenditure required to settle a present obligation in measuring a provision.

Subsidiaries without Public Accountability—Disclosures: The IASB decided to align the effective date of the new Standard with the PFS Standard (i.e. 1 January 2027) and to permit earlier application of the new Standard.

An analysis of how the IASB's work plan changed after the meeting is available on IAS Plus.

Dynamic Risk Management

In this session, the IASB discussed the potential designation of hedged exposures in the current net open risk position. The IASB also discussed the implication of designating non-linear derivatives and ‘off-market’ derivatives in the Dynamic Risk Management model.

Cover note (Agenda Paper 4)

In this session, the IASB discussed three agenda papers. Agenda Paper 4A provided an update on the DRM project only and did not ask for decisions from the IASB. IASB members were asked whether they agree with the staff recommendations on Agenda Papers 4B and 4C.

This paper was not discussed.

Summary of tentative decisions and glossary of defined terms (Agenda Paper 4A)

This paper provided an update on the DRM project based on the proposed project plan the IASB discussed in July 2022.

This paper was not discussed.

Designation of hedged exposures in the current net open risk position (Agenda Paper 4B)

This paper discussed two eligibility criteria defined as part of the core DRM model: The first is that items which are already designated in a hedging relationship are not eligible for designation in the current net open position (CNOP) and the second is that financial assets and financial liabilities must be denominated in the same currency to be eligible for designation in the CNOP.

On feedback received from stakeholders during outreaches, many participants said it is common for them to raise funding or originate loans in currencies other than their functional currency, and as a result they are likely to be exposed to foreign currency risk as well as interest rate risk from these portfolios. In many cases, they would economically manage the foreign currency risk using cross-currency swaps first, and then manage the interest rate risk in their functional currency holistically and dynamically together with other financial assets and financial liabilities denominated in their functional currency. Some IASB members asked the staff to explore the possibility of designating financial assets or financial liabilities in the DRM model after such assets or liabilities have been designated in a general hedging relationship.

Staff recommendation

The staff considered that the requirement to allocate underlying financial assets and financial liabilities denominated in different currencies into separate DRM models continues to be relevant. However, the staff recommended that an entity is permitted to include hedged exposures (i.e. the combination of the underlying exposures as the hedged items and the derivatives as the hedging instruments that are designated in an existing hedge accounting relationship) for the purpose of determining the CNOP in the DRM model.

IASB discussion

IASB members were overall supportive to the staff recommendations. One IASB member raised a question about the implications of designating aggregated exposure in the DRM model in terms of disclosure requirements. The staff acknowledged that the disclosure requirements are a topic that they should look into. Another IASB member raised a concern about the risk of the de-designation being used to achieve an accounting outcome rather than to reflect the risk management strategy. The staff clarified that the de-designation should be consistent with the risk management strategy.

IASB decision

12 of the 14 IASB members agreed that:

- The requirement for underlying financial assets and financial liabilities denominated in different currencies to be allocated to separate DRM models continues to be necessary
- An entity is permitted to include hedged exposures in a current net open risk position if doing so is consistent with the entity's risk management strategy. In the DRM model, 'hedged exposures' refers to the combination of the hedged items and the hedging instruments that are designated in a hedge accounting relationship when applying IFRS 9

Designated derivatives (Paper 4C)

This paper discussed the designation of non-linear derivatives in the DRM model and the designation of off-market derivatives in the DRM model.

Designation of non-linear derivatives in the DRM model

Background

At the June 2018 meeting, the IASB tentatively decided that options would be considered in the second phase of the model depending on the feedback from stakeholders. Some stakeholders said that in some circumstances they may have to use non-linear derivatives (such as interest rate options with non-linear cash flows), particularly when the underlying positions contain non-linear cash flows or there is significant uncertainty about the expected cash flows from their underlying positions. Some preparers suggested that using an option-based risk management strategy is arguably more effective in mitigating the interest rate risks than relying on expected cash flows. They are of the view that the DRM model should be able to faithfully reflect the effect of using these non-linear derivatives.

Staff recommendation

The staff acknowledged that using non-linear derivatives might be inherently more complicated than using linear derivates. However, considering the objective of the DRM model, the staff recommended that non-linear derivatives, except for net written options, are eligible as designated derivatives when their use is consistent with an entity's risk management strategy and faithfully represents the entity's risk management activities.

Designation of off-market derivatives in the DRM model

Background

Some stakeholders raised concerns that designation of off-market derivatives may cause further complications under the DRM model, given the complexities around determining the accrual profile of a derivative that has a non-zero fair value at the date of designation compared to the accrual profile of a derivative that has a zero fair value at the date of designation. Additionally, the potential impact of early termination of derivative contracts or derivatives trade compression (i.e. a process of reducing gross notional of a derivative portfolio by replacing multiple off-setting derivate contracts with fewer derivative contracts of the same net risk) would also need to be considered.

Staff recommendation

The staff recommended that off-market derivatives are eligible as designated derivatives in the DRM model, provided such a designation is in line with the entity's risk management strategy and faithfully represents the entity's risk management activities, and that only fair value changes of the designated derivatives after the date of the designation are considered as part of the measurement of the DRM adjustment.

IASB discussion

IASB members were overall supportive of the staff recommendations relating to both designation of non-linear derivatives and off-market derivatives into the DRM model.

IASB decision

13 of the 14 IASB members agreed that non-linear derivatives, except for net written options, would be eligible to be designated derivatives when their use is consistent with an entity's risk management strategy.

All IASB members agreed that off-market derivatives would be eligible to be designated derivatives when their use is consistent with an entity's risk management strategy. However, only the fair value changes that arise after the date of initial designation are considered when measuring the DRM adjustment.

Maintenance and consistent application

In this session, the IASB explored possible narrow-scope amendments to IFRS 9 with regard to the application of the 'own use' exception to some physical power purchase agreements and discussed the June 2023 *IFRIC Update*.

Cover paper (Agenda Paper 12)

The objective of this session was to discuss the following maintenance and consistent application topics:

- Application of the 'own use' exception to some physical power purchase agreements—exploring possible narrow-scope amendments to IFRS 9
- *IFRIC Update* June 2023

Application of the 'own use' exception to some physical power purchase agreements—Exploring possible narrow scope amendments to IFRS 9 (Agenda Paper 12A)

In June 2023, the IFRS Interpretations Committee (IFRS IC) discussed a request about applying IFRS 9:2.4 to physical delivery contracts to buy renewable energy. The request stated that entities are experiencing application challenges and questions when applying the requirements in IFRS 9 particularly due to the unique characteristics of the renewable energy market and the related features of the long-term physical delivery contracts. The request included three fact patterns.

In analysing the fact patterns, the IFRS IC was of the view that the principles and requirements in IFRS 9 do not provide an adequate basis for an entity to determine the required accounting for some physical power purchase agreements (PPAs) in a consistent way. The IFRS IC specifically considered contracts for the purchase of a non-financial item when the underlying non-financial item cannot be stored and has to either be consumed or sold within a short time in accordance with the market structure in which the item is bought and sold.

The IFRS IC therefore recommended that the IASB consider undertaking a narrow-scope standard-setting project that addresses the application of the 'own use' exception in IFRS 9 to such PPAs. Outreach confirmed that similar questions arise regarding the accounting for virtual PPAs (VPPAs).

The purpose of this meeting was to:

- Provide the IASB with a summary of the IFRS IC discussions
- Consider what the scope and priority of a potential standard-setting project could be
- Ask whether the IASB agrees to adding a narrow-scope standard-setting project to the workplan

Staff recommendation

Based on the analysis in the agenda paper, the staff recommended that the scope of the narrow-scope standard-setting project explores:

- The application of the own use exception in IFRS 9 to physical PPAs for the purchase of renewable energy where the underlying non-financial item cannot be stored economically, and has to either be consumed or sold within a short time in accordance with the market structure in which the item is bought and sold
- The application of the hedge accounting requirements using VPPAs as the hedging instrument

The staff also recommended that the project is classified and added to the workplan as a high priority project.

IASB discussion

The staff began the discussion by clarifying that they were only requesting IASB approval to begin a research project with the plan to come back to the IASB in the future to decide on the project direction. The staff are looking to understand what the issues are in relation to physical PPAs and VPPAs and whether standard-setting is a possibility.

The Chair noted that there are various fact patterns and believe a research stage is needed to ensure all facts and circumstances are understood, so that this could be addressed in one attempt rather than a multi-stage exercise. He also requested that the staff look to see if and how this project could be ringfenced.

The majority of IASB members agreed with the staff to explore this further. Some IASB members questioned whether this really was a high priority issue and whether it was pervasive with a material impact. They noted that no issues in relation to PPAs were raised in the IFRS 9 Classification and Measurement post-implementation review (PIR). The staff noted that due to recent circumstance these contracts are becoming more common. In countries where there is a net pool, PPAs are pervasive and in countries where there is a gross pool, VPPAs are pervasive.

IASB members highlighted that if the staff propose, after the research project, to request approval for standard-setting, they should consider whether this is a narrow-scope change or whether this could be application guidance or interpretation guidance. Disclosures requirements should also be considered. In addition, consideration should be given to how any potential changes might impact utility companies and whether any standard-setting could have a knock-on impact on other non-financial instruments.

IASB members asked the staff whether, if they took on this research project, there would be an impact on the current work plan. The staff noted that as they have the capacity and resources, this will not impact any current projects they are working on, but it might impact the start date for the PIR of the hedge accounting requirements.

IASB members said it should be highlighted to stakeholders that this would be a longer-term project and it is unlikely a quick solution will be reached.

The Vice-Chair noted that the IASB should create a framework to enable the IASB to make decisions on whether projects should be added onto the work programme. This would help the IASB to be more systematic and transparent with stakeholders in their decision-making.

IASB decision

13 of the 14 IASB members voted in favour of the staff’s recommendations.

IFRIC Update June 2023 (Agenda Paper 12B)

This paper reproduced the June 2023 *IFRIC Update*. The IASB were given the opportunity to comment on the contents of the *IFRIC Update*.

IASB discussion

One IASB member commented on the topic of Consolidation of a Non-hyperinflationary Subsidiary by a Hyperinflationary Parent, noting that several countries are hyperinflationary and therefore this is a common issue.

Equity Method

The purpose of this meeting was to decide how to answer an application question relating to the assessment of impairment and whether to expand the project's scope for five of the application questions that were not selected but are considered resolved by the IASB's tentative decisions.

Cover paper (Agenda Paper 13)

The objective of the Equity Method project is to develop answers to application questions about the equity method, as set out in IAS 28, using the principles derived from IAS 28 where possible.

The purpose of this meeting was to ask the IASB to decide how to answer the application question relating to the assessment of impairment: Does an investor assess a decline in fair value in relation to the original purchase price or the carrying amount at the reporting date? The IASB also discussed whether to expand the project's scope for five of the application questions that were not selected but are considered resolved by its tentative decisions.

This paper was not discussed.

Towards an Exposure Draft—Impairment of investments in associates (Agenda Paper 13A)

The purpose of this paper was to ask the IASB to consider how to resolve the application question relating to the assessment of impairment: Does an investor assess a decline in fair value in relation to the original purchase price or the carrying amount at the reporting date?

IAS 28:40 requires an investor to apply IAS 28:41A-41C to determine whether there is objective evidence that its net investment in an associate or joint venture is impaired. An investor tests its net investment in an associate for impairment in accordance with IAS 36.

The net investment in an associate is impaired if there is objective evidence of impairment from one or more events that occurred after the initial recognition of the net investment and that loss event has an impact on the estimated future cash flows from the net investment that can be reliably estimated. IAS 28:41A-41C list the indicators that provide objective evidence of impairment. IAS 28:41C states that a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

IAS 28:3 requires that the investment in the associate is measured at cost at initial recognition, however cost is not defined. At its April 2022 meeting, the IASB tentatively decided that an investor would measure the cost of an investment, when an investor obtains significant influence, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate. The application question in this paper asks if an investor (applying IAS 28:41C) should assess if there is objective evidence of impairment by comparing the fair value of an investment to the carrying amount of the net investment in the associate at the reporting date instead of the cost on obtaining significant influence.

Staff recommendation

The staff recommended that the IASB propose amendments to IAS 28:41C to change the term ‘cost’ to ‘carrying amount’, to add an impairment indicator when a purchase price (per share) for an additional interest, or a selling price (per share) for part of the interest, is lower than the carrying amount (per share) of the net investment in the associate at the date of the purchase or sale of that interest, and to remove the term ‘significant or prolonged’.

IASB discussion

All IASB members agreed with the staff recommendation to change the term ‘cost’ to ‘carrying amount’.

Several IASB members agreed with the staff recommendation to add an impairment indicator when a purchase price (per share) for an additional interest, or a selling price (per share) for part of the interest, is lower than the carrying amount (per share) of the net investment in the associate at the date of the purchase or sale of that interest. A few IASB members stated that it is a good and clear indicator of impairment if the fair value is lower than the carrying amount and that investors must consider it. A few IASB members asked the staff to reconsider the drafting and wording of the recommendation and suggested not using the words ‘per share’ as it may include consideration to other factors such as a significant control premium. They discussed that alternate terminology can be considered to clarify the intent is for a like-for-like comparison. A few IASB members did not agree with the staff recommendation and suggested that there must be an event that acts as an indicator of impairment.

Several IASB members also agreed with the staff recommendation to remove the term ‘significant or prolonged’. A few IASB members mentioned that this was a legacy term and that the term itself is not defined and was difficult to apply. Some IASB members also noted that these terms should be removed as they are not consistent with the staff recommendation on adding an impairment indication when the fair value is lower than the carrying amount. A few IASB members did not agree with the staff recommendation. They mentioned that this may result in an impairment test being required in each reporting period when the fair value would be lower than the carrying amount, along with bringing challenges in determining the fair value, especially for unlisted associates. Several IASB members noted that it was important to consider and clarify, as needed, that the impact of removing these terms, especially for companies that have an investment in unlisted associates, was not to have an additional exercise on determining fair value of the associate each reporting period unless there was an event or trigger for an impairment indicator.

IASB decision

All IASB members voted in favour of the staff recommendation to change the term ‘cost’ to ‘carrying amount’ and to add an impairment indicator when a purchase price (per share) for an additional interest, or a selling price (per share) for part of the interest, is lower than the carrying amount (per share) of the net investment in the associate at the date of the purchase or sale of that interest. 12 out of 14 IASB members voted in favour of the staff recommendation to remove the term ‘significant or prolonged’.

Towards an Exposure Draft—Implications of applying the IASB’s tentative decisions to application questions that were not selected (Agenda Paper 13B)

At its March 2021 meeting, the IASB agreed the process for selecting application questions to be in the scope of the Equity Method project. The IASB also agreed the selection of application questions is an iterative process. As the project progresses, answers could be found to application questions that were not selected or conversely answers found could raise new application questions.

The purpose of this paper was to ask the IASB:

- To discuss the staff's analysis of the implications of its previous tentative decisions to the following five application questions that were not selected:
    - How does an investor determine the initial carrying amount of an investment in an associate?
    - An investor, with a previously held interest in an entity, acquires an additional interest and obtains significant influence. Does the initial measurement include the original purchase cost of the previously held interest or the carrying amount of that interest applying IFRS 9?
    - How does an investor account for the associate's issuance of shares?
    - Is there double counting when an investor sells an item of property, plant and equipment to an associate and leases it back? (IFRS 16 requires to recognise only the amount of gain or loss that relates to the rights transferred whereas IAS 28 requires to adjust for the investor's portion of gain or loss)
    - Does an investor eliminate its portion of gain or loss in a downstream transaction against the transaction gain or loss or the share of the associate's profit or loss?
- To decide whether to expand the project's scope for these five application questions
- Whether the IASB agrees with the staff's approach to identifying whether its tentative decisions in the project to date have any unintended consequences

Staff recommendation

The staff recommended that the IASB expand the project's scope by adding the five application questions that are considered resolved by its tentative decisions.

IASB discussion

All IASB members agreed with the staff recommendation to add the application questions if they have already been discussed and resolved. One IASB member mentioned that the Basis for Conclusions should also explain how these application questions were considered and resolved.

IASB decision

All IASB members voted in favour of the staff recommendations.

Business Combinations—Disclosures, Goodwill and Impairment

In this session, the IASB made tentative decisions about which improvements to the impairment test to propose in the upcoming Exposure Draft and continued its discussions on proposals to improve information disclosed about business combinations.

Cover paper (Agenda Paper 18)

In March 2020, the IASB published Discussion Paper 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 purpose of this meeting was to ask the IASB to make a tentative decision about which improvements to the impairment test should be proposed in the upcoming Exposure Draft. The IASB also continued its discussions on proposals to improve information disclosed about business combinations.

Effectiveness of the impairment test—analysis of suggestions (Agenda Paper 18A)

In this paper, the staff set out the analysis and recommendations of whether the IASB should propose any of the suggested improvements to the impairment provided by respondents to the DP.

The DP identified two broad reasons for possible delays in recognising impairments on goodwill: shielding and management over-optimism.

Respondents suggested ways to improve the application and effectiveness of the impairment test. The staff obtained feedback from the IASB's consultative groups on suggestions that could mitigate either of these two main reasons and be implemented at a reasonable cost.

Suggestions to reduce shielding

The staff investigated the following suggestions that purported to help reduce shielding:

- providing additional guidance on how goodwill is allocated to CGUs; and
- requiring an entity to perform an impairment test when it reorganises its reporting structure in a wat that changes the composition of one or more CGUs to which goodwill is allocated.

From its analysis, the staff agreed that targeted changes to IAS 36:80 could be relatively simple to make and could improve the application of that paragraph and the allocation of goodwill for impairment testing purposes which in turn could help reduce shielding.

Suggestions to reduce management over-optimism

The staff investigated the following suggestions that purported to help reduce management over-optimism:

- Requiring an entity to disclose a comparison of cash flow forecasts used in impairment tests in prior years with actual cash flows
- Clarifying the requirement in IAS 36:33 to explain that cash flow projections based on the most recent financial budgets/forecasts still need to be based on reasonable and supportable assumptions
- Improving the list of impairment indicators set out in IAS 36:12
- Requiring an entity to disclose in which reportable segments the cash-generating units (CGUs) containing goodwill are included

From its analysis, the staff did not think the IASB should explore the first three suggestions further. However, the staff agreed that knowing which reportable segment goodwill has been allocated to in the year of acquisition could provide users with useful information that could, together with other information disclosed applying IFRS 3, help them assess management's decision to acquire a business.

Staff recommendation

Based on the analysis, the staff recommended that the IASB:

- Replace 'goodwill is monitored for internal management purposes' in IAS 36:80(a) with 'business associated with the goodwill is monitored for internal management purposes'
- Provide limited guidance on what is meant by monitoring the business associated with goodwill when an entity applies IAS 36:80(a)

- Clarify that the reference to operating segment in IAS 36:80(b) is intended as a ceiling to the level that an entity determines applying IAS 36:80(a)
- Clarify why IAS 36 permits allocating goodwill to groups of CGUs
- Include an illustrative example explaining the difference between management monitoring 'strategically important' business combinations for the purpose of subsequent performance disclosure and management monitoring a business associated with the goodwill for the purposes of impairment testing
- Require an entity to disclose in which reportable segments CGUs containing goodwill are included
- Not pursue further any of the other suggestions analysed

IASB discussion

IASB members broadly agreed with the staff recommendation overall. However, there was some challenge regarding particular proposals.

One IASB Member did not agree that an entity should be required to disclose in which reportable segments CGUs containing goodwill are included. The IASB member was not sure how this would improve the effectiveness of the impairment test. The staff members present at the meeting highlighted that this was an approach suggested by stakeholders as a means to address concerns over management overoptimism and would be a simple and low-cost requirement to implement.

Some IASB Members expressed concern at the proposed illustrative example explaining the difference between management monitoring 'strategically important' business combinations for the purpose of subsequent performance disclosure and management monitoring a business associated with the goodwill for the purposes of impairment testing. They highlighted that such an illustrative example may imply that there is only one way to apply these requirements, and result in *de facto* requirements that are not intended. There were mixed views from the IASB regarding how these concerns could be addressed. Some suggested more illustrative examples to make clear that there are multiple acceptable approaches depending on facts and circumstances; others suggested including wording in the drafting making it clear that this example is to illustrate only that the requirements operate independently, rather than an indication of how such disclosure should be made.

IASB decision

The IASB firstly voted on the staff recommendation exclusive of the proposals to:

- Include an illustrative example explaining the difference between management monitoring 'strategically important' business combinations for the purpose of subsequent performance disclosure and management monitoring a business associated with the goodwill for the purposes of impairment testing
- Require an entity to disclose in which reportable segments CGUs containing goodwill are included.

When asked to vote on this recommendation, the IASB voted unanimously in favour.

When asked to vote on the proposal to require an entity to disclose in which reportable segments CGUs containing goodwill are included, 13 of the 14 members of the IASB voted in favour.

When asked to vote on the inclusion of an illustrative example explaining the difference between management monitoring 'strategically important' business combinations for the purpose of subsequent performance disclosure and management monitoring a business associated with the goodwill for the purposes of impairment testing that is drafted in a way addressing the concerns expressed in the meeting, 11 of the 14 members of the IASB voted in favour.

Effectiveness of the impairment test—analysis of suggestions (Agenda Paper 18B)

Agenda Paper 18B (a copy of Agenda Paper 18D from the IASB's May 2023 meeting) reproduced a description of suggestions and feedback from stakeholders and ways to improve the application and effectiveness of the impairment test.

This paper was not discussed at the meeting and supplemented Agenda Paper 18A.

Disclosure requirements for specific types of entities (Agenda Paper 18C)

In this paper, the staff presented the analysis and recommendations on whether the IASB should:

- Require subsidiaries without public accountability to disclose information that would be required by the IASB's tentative decisions in this project
- Require private and unlisted entities to disclose information about the subsequent performance of business combinations

In this paper, the staff recommended that the IASB:

- Require an eligible subsidiary applying the forthcoming *Subsidiaries without Public Accountability* Standard to disclose quantitative information about expected synergies, subject to the same exemption as entities applying IFRS 3
- Does not make other amendments to the forthcoming *Subsidiaries without Public Accountability* Standard relating to tentative decisions made by the IASB in this project

The staff also recommended that the IASB does not exempt unlisted entities that apply full IFRS Accounting Standards from requiring an entity to disclose information about the subsequent performance of its business combinations.

IASB discussion

IASB members broadly agreed with the recommendation to require an eligible subsidiary applying the forthcoming *Subsidiaries without Public Accountability* Standard to disclose quantitative information about expected synergies, subject to the same exemption as entities applying IFRS 3. However, there was significant discussion regarding the recommendation to not make any further amendments to this forthcoming Standard, with some IASB members expressing surprise at certain exemptions in relation to IFRS 3 disclosure requirements available in the forthcoming *Subsidiaries without Public Accountability* Standard.

IASB members had mixed views regarding the project in which such decisions are in scope.

IASB decision

The IASB agreed not to vote on the second part of the first recommendation without further analysis on the matter, as well as discussion with the staff working on the *Subsidiaries without Public Accountability* project about how to proceed with this mater.

When asked to vote on the first recommendation, exclusive of the recommendation to make no further amendments to the forthcoming *Subsidiaries without Public Accountability* Standard, the IASB voted 13 of 14 in favour.

The IASB agreed unanimously with the second recommendation not to exempt unlisted entities from the proposed disclosure requirements.

Extractive Activities

In this session, the IASB received a summary of feedback on its Extractive Activities research project. The feedback related to suggestions to improve disclosures about an entity's exploration and evaluation (E&E) expenditure and activities that the IASB is exploring.

Cover paper (Agenda Paper 19)

The objective of this meeting was to provide the IASB with a summary of feedback on its Extractive Activities research project. The feedback related to suggestions to improve disclosures about an entity's exploration and evaluation (E&E) expenditure and activities that the IASB is exploring.

Summary of feedback—Information to help understand how entities account for E&E expenditure (Agenda Paper 19A)

This paper summarised feedback from the staff research on suggestions to improve information about how entities account for E&E expenditure.

The staff research identified three features of accounting policies for E&E expenditure that are sometimes unclear and could be improved: unit of account; E&E expenditure; and when capitalisation starts and stops.

The staff asked stakeholders for feedback about whether:

- Users are interested in better understanding how entities account for E&E expenditure
- Sufficient information is disclosed about entities' accounting policies for E&E expenditure
- Understanding the differences in financial statements of entities applying different accounting policies for E&E expenditure illustrated in the materials would be helpful
- There are any concerns with providing more information about the details of accounting for E&E expenditure

The feedback received in response to these questions is summarised in the paper.

IASB discussion

A majority of IASB members indicated that there did not appear to be compelling evidence, based on the feedback, to continue with standard-setting in this area. There appears to be uncertainty around whether additional disclosure will provide useful information for users and, where it would, this appears to be for a relatively small subset of entities.

Some IASB members asked for additional analysis including on whether the Primary Financial Statements project may require disclosure that could improve transparency around E&E expenditure.

It was noted by the staff that there was support from some stakeholders, especially regulators, and one IASB member asked the staff to provide additional detail on why it is that these stakeholders support additional information.

Some IASB members provided additional insight on why the E&E expenditure information may not be that useful to users including the wide range of entities it may impact from junior miners, where cashflow metrics are important, to major entities where the information is unlikely to be material.

Summary of feedback—Information to help compare entities with different accounting policies (Agenda Paper 19B)

This paper summarised feedback from the staff research on suggestions to improve information to help users of financial statements compare entities with different accounting policies for E&E expenditure.

One of the fundamental differences in accounting policies entities apply to E&E expenditure is whether an entity capitalises E&E expenditure as an E&E asset (a capitalisation policy) or whether an entity expenses its E&E expenditure in the period it incurs that expenditure (an expense policy). Consequently, the statements of financial position and statements of comprehensive income of entities applying these two broad types of accounting policy for E&E expenditure could significantly differ.

In its September 2022 meeting the IASB discussed a suggestion to require an entity to disclose cumulative spend information—information about cumulative E&E expenditure incurred by an entity on its current E&E activities in aggregate. Such information could help users track E&E expenditure on a cumulative basis and compare entities with different accounting policies.

The staff provided stakeholders with an example illustrating the difficulty of determining the cumulative spend on an entity's current exploration projects when the entity follows an expense policy. The staff asked for feedback about:

- Whether cumulative spend information would be useful
- How users would use that information
- What challenges there would be to preparers in disclosing that information
- Whether an entity that capitalises most, but not all, of its E&E expenditure should also disclose cumulative spend information

The feedback received in response to these questions was summarised in the paper. The discussion on this paper is summarised under Agenda Paper 19D.

Summary of feedback—Information to help understand the risks and uncertainties of entities' E&E activities (Agenda Paper 19C)

This paper summarised feedback from the staff research on suggestions to improve information about the risks and uncertainties of E&E expenditure and activities.

The staff met with stakeholders and explained why risk and uncertainty information might be helpful. They also provided examples of the type of information an entity might disclose. For example, risk and uncertainty information could help users understand:

- Level of uncertainty—stage of activities, whether the activities are on a brownfield site or a greenfield site
- Operational risks—challenges due to the nature of the activities, type of geology, remoteness of area
- Political and regulatory risks—operating in a particular geography, legislative uncertainties, title risk

The staff also explored whether entities should be required to disclose a breakdown of annual E&E expenditure (if expensed) or E&E assets (if capitalised) by major project with some narrative information about each project's risks and uncertainties.

The staff asked stakeholders for feedback about:

- Whether users would find this information useful and what they would use the information for
- What concerns preparers would have in disclosing this information
- Whether this information should be disclosed within financial statements
- Whether this information is important regardless of how an entity accounts for E&E expenditure

- What risks and uncertainties should be disclosed
- Whether this information is already being disclosed and if so, where
- How this information should be aggregated or disaggregated
- Whether it would also be useful, and feasible, to disaggregate E&E expenditure or E&E assets

The feedback received in response to these questions was summarised in the paper. The discussion on this paper is summarised under Agenda Paper 19D.

Summary of feedback—Other information about E&E expenditure and activities (Agenda Paper 19D)

The staff asked stakeholders for suggestions to improve information about E&E expenditure and activities in addition to the three suggestions the staff discussed with stakeholders as summarised in Agenda Papers 19A-19C to this meeting. This paper summarised that feedback.

IASB discussion

Agenda Papers 19B-19D were discussed together.

A number of IASB members touched on the following areas in their comments:

- Financial statements boundary: It was suggested, based on feedback, that a number of the proposed disclosures, including risks and uncertainties, would be more appropriate outside the financial statements and within management commentary. It was also noted that often, this information is already provided within commentary either voluntarily or in line with regulatory requirements
- 'Nice to haves': Again, based on feedback, it seemed as though the suggestions for additional information would be useful for users but were not seen as must have information. Additionally, it was not clear to some IASB members whether there was a problem that needed to be solved by the additional disclosures
- Cost of disclosure: One IASB member identified that the cost of the additional disclosure would be likely to fall disproportionately on smaller entities where the focus of the users would ordinarily be on cash flow metrics

The next steps are for the project direction to be discussed and decided on in the September 2023 IASB meeting.

Primary Financial Statements

In this session, the IASB will discussed whether to re-expose the proposals in the Exposure Draft *General Presentation and Disclosures*. The IASB will also discussed transition requirements and the effective date of the new Standard, as well as the due process requirements.

Consideration of the re-exposure criteria (Agenda Paper 21A)

Background

This paper set out the re-exposure criteria in the IFRS Foundation Due Process Handbook and asked the IASB to consider whether it should finalise the new Standard without re-exposing it for another round of public comments.

Staff recommendation

The staff recommended that the IASB finalise the new Standard without re-exposing for another round of public comments.

IASB discussion

IASB members agreed with the staff recommendation not to re-expose for another round of public comments because, although there have been changes to the ED, the changes have not been fundamental changes and stakeholders have been provided with the opportunity to give their feedback. In addition, many IASB members do not believe new information will be obtained from re-exposing the new Standard and if re-exposed, it could create significant delays in finalising the new Standard.

IASB decision

All IASB members agreed with the staff recommendation to finalise the new Standard without re-exposing for another round of public comments.

Transition and effective date (Agenda Paper 21B)

Background

This paper set out the staff analysis and recommendations on the proposals in the ED for transition and the effective date of the new Standard.

Staff recommendation

The staff recommended that the IASB require an entity to apply the new Standard for annual periods beginning on or after 1 January 2027 with early application permitted and to apply the new Standard retrospectively in accordance with IAS 8.

The staff recommended the IASB confirm the proposal in the ED to require an entity to present each of the headings and subtotals required by the new Standard in condensed financial statements in interim financial reports in the first year of application of the new Standard.

Furthermore, the staff recommended that the IASB introduce a transition requirement that requires an entity to disclose a reconciliation for each line item in the statement of profit or loss applying the requirements in IAS 1 and the new Standard for the annual period immediately preceding the date of initial application of the new Standard and permit, but not require, this disclosure for the reporting period when the new Standard is first applied or for earlier comparative periods presented. This disclosure would be required instead of the disclosure requirement in IAS 8:28(f).

Lastly, the staff recommended the IASB to require an entity that has not applied the new Standard before its effective date and presents subtotals which are labelled the same as required subtotals in the new Standard, to disclose the fact that subtotals presented may not be the same as subtotals had the requirements in the new Standard been applied.

First-time adopters of IFRS Accounting Standards would be required to apply the transition requirement in paragraph 118 of the ED to present each of the headings and subtotals required by the new Standard in condensed financial statements provided in interim financial reports for part of the period covered by its first IFRS financial statements.

IASB discussion

Some IASB members expressed the concern that for some entities, the first application of the new Standard would be a set of condensed interim financial statements. Furthermore, some IASB members said there may not be sufficient time for preparers to adopt the new Standard at 1 January 2027 in addition to the new climate reporting requirements that preparers will need to adopt. Other IASB members believed 1 January 2027 is a realistic date and preparers will have sufficient time to adopt the new Standard. Some IASB members said that is it unlikely that many preparers will be early adopting the new Standard. Some IASB members believed this project has been in the works for a long time and is a high priority project for many investors and would therefore an effective date of 1 January 2026.

Some IASB members said that requiring an entity to disclose a reconciliation for each line item in the statement of profit or loss applying the requirements in IAS 1 and the new Standard for the annual period immediately preceding the date of initial application of the new Standard would mean that preparers will need to present a reconciliation by 2026. In addition, many IASB members were concerned this proposal is likely to result in preparers incurring significant incremental costs. Some IASB members questioned how this interacts with the requirements in IAS 34. Some IASB members proposed the staff provide an explicit relief on restating comparatives. It was agreed that the staff will bring back a paper covering this as a sweep issue.

IASB decision

12 of the 14 IASB members agreed with the staff recommendation to require an entity to apply the new Standard for annual periods beginning on or after 1 January 2027 with early application permitted.

All IASB members agreed with the staff recommendation to confirm the proposal in the ED to apply the new Standard retrospectively in accordance with IAS 8.

All IASB members agreed with the staff recommendation to confirm the proposal in the ED to require an entity to present each of the headings and subtotals required by the new Standard in condensed financial statements in interim financial reports in the first year of application of the new Standard.

All IASB members agreed with the staff recommendation to require an entity to disclose a reconciliation for each line item in the statement of profit or loss applying the requirements in IAS 1 and the new Standard for the annual period immediately preceding the date of initial application of the new Standard. This disclosure would replace the disclosure required in IAS 8:28(f) and would be:

a) required for the comparative period immediately preceding the period in which the new Standard is first applied;
b) permitted but not required for the reporting period in which the new Standard is first applied; and
c) permitted but not required for comparative periods presented other than the comparative period specified in subparagraph (a).

Subject to drafting, 11 of the 14 IASB members agreed with the staff proposal to require an entity to disclose the reconciliation described in (c) above for line items in the statement of profit or loss presented in interim financial statements for interim periods in the first year of applying the new Standard.

The IASB members decided to consider whether to provide transitional relief from restating amounts presented to additional comparative periods.

Due process requirements (Agenda Paper 21C)

Background

This paper set out the steps in the IFRS Foundation Due Process Handbook that the IASB has taken in developing the new Standard and asked the IASB to confirm that it is satisfied that all the mandatory due process steps have been taken. This paper requested permission for the staff to begin the balloting process for the new Standard and asked whether any IASB member intends to dissent from the publication of the new Standard.

IASB decision

All IASB members confirmed that all mandatory due process steps have been taken and the staff can begin the balloting process for the new Standard.

No IASB members intend to dissent from the publication of the new Standard.

Provisions—Targeted Improvements

In this session, the IASB discussed two of the possible improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Cover paper (Agenda Paper 12)

The objective of this session was to:

- Discuss stakeholder feedback on discount rates for provisions within the scope of IAS 37—specifically, feedback on whether the risks reflected in the rate should include non-performance risk
- Discuss whether IAS 37 should specify the types of costs to include in estimating that expenditure required to settle a present obligation in measuring a provision

Discount rates—stakeholder feedback (Agenda Paper 22A)

As part of its project to make targeted improvements to IAS 37, the IASB is considering developing proposals to specify in IAS 37 whether discount rates for provisions reflect non-performance risk, and if so, how.

The staff have sought views and received feedback on this matter from a range of stakeholders, including users of financial statements, preparers of financial statements and national standard-setters. In the light of the stakeholder feedback, the staff have identified four possible ways in which the IASB could propose amending IAS 37 to improve the comparability of measures of provisions. The IASB could propose:

- To standardise discount rates used by:
  - Specifying that the risks reflected in the discount rate include the non-performance risk specific to the provision; or
  - Specifying that the risks reflected in the discount rate exclude non-performance risk; or
  - Requiring a specified market-based rate that reflects the time value of money and some non-performance risk
- To enhance disclosure requirements without also standardising the discount rates used

Staff recommendation

IASB members were asked to comment on the stakeholder feedback as well as the four options and next steps suggested by the staff. The IASB was not asked to make any decisions.

IASB discussion

IASB members suggested to take forward option two (specify that the risks exclude non-performance risk) and three (require a rate determined by reference to a specified market rate) and to compare and contrast them. Both the options will in any case imply enhanced disclosure requirements.

Costs to include in measuring a provision (Agenda Paper 22B)

As part of its project to make targeted improvements to IAS 37, the staff asked the IASB to decide whether to propose an amendment to the measurement requirements in IAS 37 to specify which types of costs an entity includes in measuring a provision.

Staff recommendation

The staff recommended that the IASB propose to specify in IAS 37 that:

- The expenditure required to settle an obligation comprises the costs that relate directly to settling the obligation
- The costs that relate directly to settling an obligation consist of both the incremental costs of settling the obligation and an allocation of other costs that relate directly to settling obligations of that type

IASB discussion

IASB members supported the staff recommendation. This will be the next step to the amendment made to IAS 37 with regard to onerous contracts.

IASB decision

All IASB members voted in favour of the staff recommendation.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

In this session, the IASB discussed feedback on the effective date and transition to the new Standard and due process.

Cover paper (Agenda Paper 31)

At this meeting, the IASB continued redeliberating the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (draft Standard) with the objective of developing an IFRS Accounting Standard (new Standard). In particular, the IASB discussed feedback on the effective date and transition to the new Standard and Due Process.

This paper was not discussed.

Effective date and transition (Agenda Paper 31A)

This agenda paper was for the IASB to discuss the effective date and transition provisions for the new Standard. As part of the transition requirements in the new Standard, the paper also discussed the interaction between the new Standard and the Standard being developed based on the Exposure Draft *General Presentation and Disclosures* (Primary Financial Statements (PFS) Standard).

Staff analysis

Effective Date

The new Standard will simplify the preparation of eligible subsidiaries' financial statements by permitting the application of IFRS Accounting Standards with reduced disclosure requirements. As the new Standard does not introduce new requirements, this suggests a shorter period from the date of issuing the new Standard to the effective date could be acceptable.

There were no comments received on the effective date as proposed in the draft Standard. However, some feedback indicates that some jurisdictions might need time to incorporate the new Standard into their regulations. This suggests the normal period of time between issuing the new Standard to the effective date could be appropriate.

The IASB generally allows at least 12-18 months between the issuance of an IFRS Accounting Standard and its effective date, which is a reasonable period for a jurisdiction to adopt the new Standard and consider implications into their regulations. For jurisdictions where there is no, or less, concern on the interaction of the new Standard with local regulations, they will not be disadvantaged if early application of the new Standard is permitted.

It is envisaged that the new Standard will be issued in the first half of 2024, therefore an effective date for periods ending after 31 December 2026 could be proposed.

<u>Transition requirements</u>

An eligible subsidiary electing to apply the new Standard would previously have applied a local GAAP, the *IFRS for SMEs* Accounting Standard or (full) IFRS Accounting Standards.

An eligible subsidiary electing to apply the new Standard that previously applied a local GAAP or the *IFRS for SMEs* Accounting Standard would apply IFRS 1 on electing to apply the new Standard for the first time.

An eligible subsidiary electing to apply the new Standard and previously applying IFRS Accounting Standards would not apply the requirements in IAS 8, and is not required to present a third statement of financial position (that is, a second comparative statement of financial position) as at the beginning of the earliest period presented.

<u>Interaction between the new Standard and the PFS Standard</u>

The disclosure requirements proposed in the draft Standard under the IAS 1 subheading are based on IAS 1 and were not updated for the Exposure Draft *General Presentation and Disclosures*. It is expected that the PFS Standard will be issued before the new Standard is issued. Consequently, the staff think the draft Standard should be updated to be based on the PFS Standard.

Updating the proposed disclosure requirements for the PFS Standard would not involve adding or deleting any disclosure requirements to or from the draft Standard because these disclosure requirements have not been subject to due process. Updating will be restricted to amending the references

As it is expected that the PFS Standard will be issued before the new Standard is issued and given that both these new IFRS Accounting Standards are likely to permit early adoption, a question arises on the interaction between these two new IFRS Accounting Standards. The following scenarios could arise:

- An eligible subsidiary early adopts the PFS Standard but does not early adopt the new Standard. In this scenario the new Standard needs to include disclosure requirements based on the PFS Standard
- An eligible subsidiary early adopts both new IFRS Accounting Standards simultaneously. In this scenario the new Standard needs to include disclosure requirements based on the PFS Standard
- An eligible subsidiary early adopts the new Standard but does not early adopt the PFS Standard. In this scenario the new Standard needs to include disclosure requirements for IAS 1

If the effective dates are the same but an eligible subsidiary wishes to early adopt the new Standard, the staff recommend that the IASB adds an appendix to the new Standard of the disclosure requirements that would be applicable. From the perspective of maintaining the new Standard, when the PFS Standard becomes effective the IASB could withdraw this appendix without affecting the main body of the new Standard.

Staff recommendation

The staff recommended that the IASB:

- Aligns the effective date of the new Standard with the PFS Standard
- Permits earlier application of the new Standard and requires an eligible subsidiary to disclose that fact
- Confirms the proposed requirements for comparative information when an eligible subsidiary elects to apply the new Standard or revokes that election

In addition, the staff recommended that as part of the transition requirements, the IASB:

- Confirms that disclosure requirements issued since the draft Standard was developed remain applicable
- Specifies the applicable disclosure requirements if an eligible subsidiary applies the new Standard early but does not apply the PFS Standard early

IASB discussion

The discussion mainly focused on the question of whether the effective date of the new Standard should be aligned with the effective date of the PFS Standard, both from a point of principle perspective and from a practical perspective. One IASB member raised a concern about the challenge users may face if prepares adopt the new Standard in one year and then adopt the PFS the subsequent year. That IASB member recommended going further than aligning the effective date of the two standards by mandating that the preparers could only early adopt the new Standard if they also early adopted PFS. Other members noted that the new Standard was for subsidiaries with no public accountability and there should therefore be limited user concern about this issue in practice.

During the discussion it was noted that the objective of the new Standard was to reduce costs for preparers and that it would therefore be best to allow adoption as early as possible. One IASB member suggested that the effective date should be 1 January 2026, but the consensus was that 2027 was preferable, especially as early adoption was to be allowed.

It was noted that the PFS and the new Standard were developed independently and for different purposes and most IASB members preferred not to link them together.

IASB decision

The IASB voted on the following items separately:

- Align the effective date of the new Standard with the PFS Standard—5 out of 14 IASB members agreed
- Set the effective date as 2027 with early application permitted—12 out of 14 IASB members agreed
- Set the effective date as 2026 with early application permitted—2 out of 14 IASB members agreed

The rest of the recommended items were voted on collectively:

- Permit earlier application of the new Standard and require an eligible subsidiary to disclose that fact
- Confirm the proposed requirements for comparative information when an eligible subsidiary elects to apply the new Standard or revokes that election
- Confirm that disclosure requirements issued since the draft Standard was developed remain applicable
- Specify the applicable disclosure requirements if an eligible subsidiary applies the new Standard early but does not apply the PFS Standard early

All IASB members agreed with these recommendations.

Due process (Agenda Paper 31B)

This agenda paper explained the steps in the IFRS Foundation Due Process Handbook that the IASB has taken in developing the new Standard. This paper also asked the IASB's permission to begin the process for balloting the new Standard and asked if any IASB member plans to dissent from the proposals in the new Standard.

IASB decision

All 14 IASB members confirmed they were satisfied the IASB has complied with the applicable due process requirements and has undertaken sufficient consultation and analysis to begin the process for balloting the Standard.

No IASB member indicated an intent to dissent from issuing the Standard.

The IASB decided re-exposure of the proposals in the ED as revised by its tentative decisions is not required. All 14 IASB members agreed with this decision.