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IFRS Interpretations Committee

Meeting Notes

June 2023

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Overview

The IFRS Interpretations Committee (IFRS IC) met in London on 7-8 June 2023.

The IFRS IC discussed two new items, one follow-up discussion on a previous matter and gave input on two IASB projects.

New item: IFRS 9 *Financial Instruments*—Application of the "Own Use" Exemption: The IFRS IC received a submission about the possibility of applying the own use exception in IFRS 9:2.4 to contracts for the procurement of renewable energy (power purchase agreements or “PPAs”) as part of an entity’s commitment to reduce the effects of climate change and to decarbonise their production and products for each of the three fact patterns. Based on the analysis, the staff considered that the principles and requirements in IFRS 9 do not provide an adequate basis for an entity to determine the appropriate accounting for PPAs and recommended that the IASB develop a narrow-scope amendment that addresses the application of IFRS 9:2.4 particularly to contracts for the purchase of a non-financial item that cannot be stored and has to be consumed within in a short time interval in accordance with the market structure in which the item is traded. In the meeting, most of IFRS IC members agreed with this conclusion.

New item: **IAS 27 *Separate Financial Statements*—Merger between a Parent and Its Subsidiary in the Separate Financial Statements:** The IFRS IC received a submission about how an entity applies IAS 27 to account for a merger with its subsidiary in its separate financial statements and whether the parent should apply the business combination accounting requirements in IFRS 3. From the findings of the information request and additional research, the “carrying amount method” (i.e. the parent entity recognises the subsidiary’s assets and liabilities at their previous carrying amounts) is the predominate method in practice and the staff did not observe diversity in accounting. The staff recommended not to add a standard-setting project to the work plan but to publish a tentative agenda decision. In the meeting, all IFRS IC members agreed with this recommendation.

Follow-up discussion on previous matter: IAS 21 *The Effects of Changes in Foreign Exchange Rates and* IAS 29 *Financial Reporting in Hyperinflationary Economies*—Consolidation of a Non-hyperinflationary Subsidiary by a Hyperinflationary Parent: In its June 2022 meeting, the IFRS IC discussed a submission about the accounting applied by a parent, whose functional currency is the currency of a hyperinflationary economy, when it consolidates a subsidiary, whose functional currency is the currency of a non-hyperinflationary economy. The IFRS IC concluded that the parent could restate or not restate the subsidiary’s results and financial position in terms of the measuring unit current at the end of the reporting period. After conducting additional research, the staff recommended the IASB develop a narrow-scope amendment that addresses the submitted fact pattern and a related matter (a situation in which an entity with a non-hyperinflationary functional currency presents its financial statements in a hyperinflationary currency). In the meeting, all IFRS IC members agreed with the recommendation to refer the matter to the IASB and the IFRS IC will present to the IASB all the facts and analysis, including the merits of restating.

Input on IASB project: Climate-related Risks in the Financial Statements: The focus of the project is to explore whether and how financial statements can better communicate information about climate-related risks. IFRS IC members gave feedback on nature of concerns, causes of concern and courses of action and scope of the project.

Input on IASB project: Business Combinations under Common Control (BCUCCs): After the analysis of feedback on selecting the measurement method to apply to a BCUCC, the IASB set out options for the project direction. The purpose of the discussion was to understand what problems are caused by the gap in guidance in IFRS Accounting Standards for reporting BCUCCs, and whether there are specific examples of when the reporting for a BCUCC resulted in financial statements that were misleading or failed to provide useful information about the BCUCC. IFRS IC members gave feedback on the project direction.

Work in progress: The update from the March 2023 meeting was presented to the IFRS IC.

Initial consideration

IFRS 9 *Financial Instruments*—Application of the "Own Use" Exemption (Agenda Paper 2)

Background

The IFRS IC received a submission about the possibility of applying the own use exception in IFRS 9:2.4 to contracts for the procurement of renewable energy (power purchase agreements or "PPAs") as part of an entity's commitment to reduce the effects of climate change and to decarbonise their production and products for each of the three fact patterns. The three fact patterns include purchased-as-produced contracts, settlement of power purchase agreements and oversized contracts. The description is as follows:

Fact Pattern 1—Purchased-as-produced contracts: The entity enters into a PPA with a wind park operator to acquire a fixed share of the energy produced at a price per unit of energy that is fixed throughout the contract duration of 25 years. The entity does not operate its production facilities all the time. Therefore, it is unavoidable that there would be times during the life of the contract during which the entity will be unable to consume the energy when delivered and has to sell the energy on the spot market. On the other hand, the entity repurchases (at least) the same amount from that market at times when the production facilities are operated. The process of selling and repurchasing is delegated to a service provider for a fixed or formula-based fee and is designed to be on autopilot that acts without the intention of trading to realise profits. There is no explicit net settlement option within the contract.

Fact Pattern 2—Settlement of PPAs: Based on the estimated gas demand, an entity has contracts to purchase natural gas for use in its own production facilities to fix the price and secure physical supply in advance. The entity has never settled any contracts net historically. Due to change in economical and geo-political environment, the entity invested in energy saving efforts and reduced its demand by 30%. Accordingly, the entity net settled all unneeded volumes by entering into a compensation agreement with the supplier. The entity continues to regard the primary purpose of the natural gas purchase agreements as contracts to buy a non-financial item.

Fact Pattern 3—Oversized contracts: The entity enters into a PPA that does not promise a fixed amount of output with providers of renewable energy (wind and solar). Based on information provided by the energy provider, the entity expects to receive 95% of its energy demand from the energy provider, which is based on the probability of 75% of the solar farm operating under most probable conditions. Any additional demand would be procured from the spot market. Similarly, any excess energy at the point of delivery would be sold to the spot market.

Staff analysis

The staff sent an information request to members of the International Forum of Accounting Standard-Setters (IFASS), securities regulators and large accounting firms. The majority of large accounting firms said that the fact patterns are either common in many jurisdictions or becoming increasingly common in some jurisdictions. Standard-setters from Europe and the Asia Pacific region observed all three fact patterns to be common in certain industries in their jurisdictions. All respondents said that accounting for these fact patterns have a material effect on the financial statements. Preparers, auditors and regulators in impacted jurisdictions said that IFRS 9 does not provide sufficient guidance on how to assess whether entities satisfy the requirements for own use and this has caused diversity in practice. Many respondents said that similar questions arise in the context of other energy and fuel markets such as oil and gas. Moreover, respondents noted similar questions arise with regard to the accounting for virtual PPAs (VPPAs). They commented that if the guidance of the IFRS IC only covers the fact patterns described, it would leave many unanswered questions regarding the application of the own use exception to other fact patterns.

The staff said that a key element of the IFRS IC's analysis would be the ways in which electricity markets are structured. Therefore, the staff paper first provided the background information on electricity markets and introduced 'gross pool' and 'net pool' electricity markets, which are broadly the two major categories of the wholesale electricity market design. In a net pool market, the customer has contracted with a supplier to purchase a specified volume of electricity for a period of time. Therefore, the customer has both a contractual right to that volume of electricity and a contractual obligation to purchase it. In contrast, in a gross pool electricity market, a PPA provides the customer with neither the right to obtain electricity nor the obligation to purchase or consume any particular amount of electricity either from the PPA contract partner or the grid. Therefore, the key difference between a gross pool and a net pool electricity market is that in a gross pool electricity market the electricity contracted under a PPA is never considered to be physically delivered to the electricity customer. As a result, the fact pattern described in the submission can only be contracted where market operators run a net pool electricity regime, which is the focus of the staff's analysis.

Applying the requirements in IFRS 9:2.4 to the fact patterns described in the submission, the first factor is an assessment of the meaning of delivery of electricity. The staff state that delivery of electricity into the grid by the generator in a net pool electricity market constitutes 'delivery' because at the time the electricity is delivered into the grid, the electricity customer is able to instantaneously access that electricity; and the delivery of electricity by the generator to the user satisfies both the customer's contractual right to that volume of electricity and its contractual obligation to purchase electricity at the fixed price.

Secondly, the meaning of settlement has to be assessed. The staff considered that the circumstances described in IFRS 9:2.6(b) might be relevant to Fact Pattern 2 and an entity needs to apply judgement to determine whether it has established a past practice of net settlement and whether contracts in a group of contracts are similar for the purpose of applying IFRS 9:2.6(b). For Fact Patterns 1 and 3, IFRS 9:2.6(c) might be relevant and the primary consideration is whether the selling activities are profit-orientated or are a result of the electricity market structure and would therefore not preclude the own use exception from being applied.

Thirdly, an evaluation of an entity's expected electricity usage requirements is required. The structure of the electricity market is characterised by unique features (e.g. unpredictability of supply, inability to store electricity, automated sale of unused electricity within short time interval, etc.) that are absent in a typical commodity or consumption goods market and therefore it differs substantially from other commodity markets, where the assessment is relatively straight-forward. Some stakeholders considered that the selling excess electricity at spot prices within one or more delivery intervals means that some electricity is not consumed for own use at that particular delivery time and therefore the own use exception cannot be applied. However, some stakeholders considered that the entity uses the spot market as a storage mechanism and does not intend to generate profits from those transactions. In addition, some other stakeholders considered that as long as the entity takes delivery of the contracted amount of electricity, the entity's expected usage must be assessed over a longer time interval or the term of the contract. The staff state that IFRS 9 allows some deviation of actual usage from the expectation and considered it consistent with the principles of the own use exception. However, the staff considered that there is no adequate application guidance in IFRS 9 to determine this.

In conclusion, the staff considered that the principles and requirements in IFRS 9 do not provide an adequate basis for an entity to determine the appropriate accounting for PPAs in the circumstances described in the submission. It would be necessary to add or change the requirements for the own use exception in IFRS 9 to clarify:

- To what extent the market structure in which a non-financial item is transacted is relevant to determining an entity's own usage requirements

- Over which period an entity's expected usage requirements needs to be evaluated when delivery could occur on a near-constant basis
- To what extent transactions in the spot market subsequent to delivery indicate that a PPA is, or is not, for the purpose of an entity's own usage requirements

Staff recommendation

The staff recommended that the IASB develop a narrow-scope amendment that addresses the application of IFRS 9:2.4 particularly to contracts for the purchase of a non-financial item that cannot be stored and must be consumed within in a short time interval in accordance with the market structure in which the item is traded.

IFRS IC discussion

The IFRS IC had a lively discussion on this agenda item. Some of the IFRS IC members shared their view on the development of IFRS 9 for such "own use" exemption and some of them shared their knowledge about the gross versus net pool electricity market which indicate that some circumstances may be different from what has been set out in the agenda paper.

Some IFRS IC members commented that there is a possibility that the PPAs under the gross pool market result in the customer having both a contractual right to that volume of electricity and a contractual obligation to purchase it, while some could be physically delivered. On the other hand, PPAs in a net pool market could be structured to have no such right and obligation and no physical delivery as well. Therefore, the focus should not be the market in which the PPAs are entered into but whether the PPAs give the customer the right and obligation to purchase electricity. Some of them commented that, if the "own use" exemption is workable in the net pool market, those users in the gross pool market would be disadvantaged while the purpose of entering such PPAs is similar. A number of IFRS IC members suggested the volatility in the gross pool market might be addressed by applying hedge accounting, but such application would be complicated. A few IFRS IC members suggested the issue related to the gross pool market also needs to be addressed later after this project.

Some IFRS IC members disagreed that the principles and requirements in IFRS 9 do not provide an adequate basis for an entity to determine the appropriate accounting for PPAs in the circumstances described. Particularly, one IFRS IC member said Fact Patterns 1 and 3 obviously failed the criteria for the own use exemption. Instead, they considered that users do not like the conclusion as a result of the application of IFRS 9. The Chair responded that if this is the case, it should not result in a standard-setting project. It should be the unique characteristics of the renewable power that the existing Standard could not address, because when those relevant paragraphs in IFRS Accounting Standards were developed, the contracts it intended to address did not exhibit such features. The conclusion resulting from the application does therefore not faithfully represent the economics of the transactions that drive the IFRS IC to refer to the IASB to recommend a standard-setting project. Some IFRS IC members said that going back to the issue, an IFRIC agenda decision on the narrowed fact patterns could be an alternative. Nonetheless, some IFRS IC members had concerns with this because it may end up changing the practice on other scenarios. The staff replied that they did not mean that there is nothing in the Standard that could address the issue submitted but there is something (due to the unique features of the PPAs) that the existing Standards cannot address. Therefore, they considered that those unclear areas (as set out in the paper) should be clarified.

There was also discussion on the scope of the potential amendments to requirements in IFRS 9. Some IFRS IC members considered that it should be a narrower scope to include only renewable energy with the unique characteristic of not being able to be stored and uncontrollable production. However, a number of IFRS IC members considered that standard-setting should be principle-based so that it can cover a broader scope.

They said there are other similar contracts which involve a tremendous volume of commodity which cannot be stored that encounter the same “own use” exemption issue and that should be addressed as well.

They also discussed the key features of the PPAs which the existing Standards do not address, other than the “storage” problem. This should include “immediate usage” once it is produced in scenarios where neither the generator nor the customer can control how much to be produced. Some IFRS IC members said that the long term (as long as 25 years in Fact Pattern 1) is another unique characteristic that made fair value of this kind of contract difficult to be assessed due to the volatility in the production. In addition, it is difficult to predict the future spot price. A few IFRS IC members said that the project setting should also focus on other aspects of contracts including the unit of account. They said that there is never a perfect match between the expected usage and the actual usage due to the unpredictability of the supply. The standard-setting should therefore cover in which time bucket to compare the usage and how to draw the line when analysing frequency and magnitude of selling the energy.

IFRS IC decision

9 out of 14 of the IFRS IC members agreed that the requirements in IFRS 9 do not provide an adequate basis for an entity to determine the appropriate accounting for PPAs submitted. The same number of IFRS IC members agreed recommending that the IASB develop a narrow-scope amendment that addresses the application of IFRS 9:2.4, in particular for contracts for the purchase of a non-financial item that cannot be stored and must be consumed within in a short time interval.

IAS 27 *Separate Financial Statements*—Merger between a Parent and Its Subsidiary in the Separate Financial Statements (Agenda Paper 3)

Background

The IFRS IC received a submission about how an entity applies IAS 27 to account for a merger with its subsidiary (which contains a business) in its separate financial statements and whether the merger should be accounted for as a business combination applying IFRS 3 or whether the parent entity should recognise the subsidiary’s assets and liabilities at their previous carrying amounts (carrying amount method).

Staff analysis

The staff sent an information request to members of IFASS, securities regulators and large accounting firms. Many respondents said the fact pattern is common, particularly in some countries across Latin America, Africa, Europe and Asia. These respondents said the carrying amount method is the predominant method of accounting. Since the parent entity controlled the subsidiary before the merger, the merger is not a business combination. Two accounting firms said that there may be diversity in accounting. However, they have not observed any entity applying IFRS 3. In addition, from the additional research using an market intelligence tool, the staff found that some entities with similar fact pattern were identified and the carrying amount method applied to all these.

From the above result, the staff had no evidence of diversity in accounting for the fact pattern described in the submission and the different views described in the submission are not widespread.

Staff recommendation

The staff recommended not to add a standard-setting project to the work plan but to publish a tentative agenda decision that explains the IFRS IC’s reasons for not adding a standard-setting project.

IFRS IC discussion

IFRS IC members generally agreed with the staff’s analysis. However, a few IFRS IC members asked whether the IC considered View 1 (i.e. a business combination in the scope of IFRS 3), has no basis to apply. The staff explained that they did not go further to perform a technical analysis given there is no evidence for diversity in practice. One IFRS IC member commented that it is common in pre-IPO/spin-off cases that View 1 may be applied. The large firms' manuals also indicate that there is diversity in accounting. So instead of stating that there is no diversity or indicating that the "carrying amount method" is pervasive, he suggested stating there is "little" diversity instead.

Regarding the wording in the agenda decision, IFRS IC members commented that "carrying amount method" is not a term used in the standard and suggested to only say "at the previous carrying amount". Another IFRS IC member suggested to change "generally apply the carrying amount method" to "do not apply IFRS 3" in order to avoid the term "carrying amount method".

IFRS IC decision

All IFRS IC members agreed with the recommendation not to add a standard-setting project to the work plan but to publish an agenda decision explaining the reasons with the suggested edits.

Follow-up discussion on previous matter

IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 29 *Financial Reporting in Hyperinflationary Economies*—Consolidation of a Non-hyperinflationary Subsidiary by a Hyperinflationary Parent (Agenda Paper 5)

Background

In its June 2022 meeting, the IFRS IC discussed a submission about the accounting applied by a parent, whose functional currency is the currency of a hyperinflationary economy, when it consolidates a subsidiary, whose functional currency is the currency of a non-hyperinflationary economy. The IFRS IC concluded that the parent could not restate or restate the subsidiary's results and financial position in terms of the measuring unit current at the end of the reporting period.

Staff analysis

Considering the conclusion at its June 2022 meeting, the IFRS IC asked staff to conduct additional research. From the research, respondents said the submitted fact pattern is prevalent and could be material in hyperinflationary economies and observed diversity in accounting treatment. Other than the two views expressed in the paper, respondents said that some entities apply another accounting treatment, under which the hyperinflationary parent does not restate the subsidiary's current period income and expenses but restates only the subsidiary's comparative information by applying the change in the general price index from the beginning of the reporting period to the comparative information. Many respondents said that restating gives more useful information while other respondents said none of the alternative views is necessarily more useful because each of the accounting treatments have their own costs and benefits.

Regarding the scope of any narrow-scope standard-setting project, some respondents said it has merits because it will remove diversity and improve financial reporting while others said there are other challenges when applying IAS 29 and the submitted fact pattern is not the most important one. The related matter that most respondents suggested addressing at the same time is a situation where an entity with a non-hyperinflationary functional currency presents its financial statements in a hyperinflationary currency. The staff said in this related matter, the entity cannot restate its current period income and expenses or comparative amounts because IAS 29:1 is applicable to an entity whose functional currency is the currency of a hyperinflationary economy only. Therefore, the principles and requirements in IAS 21 provide an adequate basis for the accounting for this related matter. However, noting IAS 29:2, some stakeholders considered such reporting might not be useful because current period income and expenses and comparative information are not expressed in the current measuring unit. Also, they commented that not applying IAS 29 to such an entity leads to a lack of comparability between its financial statements and entities in the same hyperinflationary economy that are in the scope of IAS 29. Accordingly, the staff agreed that in both the submitted fact pattern and the related matter, there is a question as to whether applying IAS 21:39 in these situations results in useful information and recommended both to be addressed in a narrow-scope amendment.

Based on the staff's research and the reasons noted in IAS 29:2, the staff considered that expressing financial statements that are presented in a hyperinflationary currency in terms of the current measuring unit would improve the usefulness of information. However, requiring an entity to apply the IAS 29 restatement methodology to the related matter would be a significant change in the scope of IAS 29. As a result, the possible solution would be amending IAS 21 by requiring a reporting entity to translate all items (assets, liabilities, equity items, income and expenses, including comparatives) at the most recent closing rate when the entity has a non-hyperinflationary functional currency and presents financial statements in a hyperinflationary presentation currency (related matter); or translates the results and financial position of a foreign operation that has a non-hyperinflationary functional currency (submitted fact pattern).

Staff recommendation

The staff recommended that the IFRS IC refers the matter to the IASB by recommending that the IASB develop a narrow-scope amendment that addresses the submitted fact pattern and the related matter.

IFRS IC discussion

IFRS IC members generally agreed with the staff recommendation to refer the matters (the submission and the related matter) to the IASB. Some of them commented that there is diversity in practice and although the standard does give an answer, it is not exact. They therefore agreed that standard-setting is required to eliminate this diversity. They agreed not to amend IAS 29, but to amend IAS 21 instead.

One IFRS IC member commented that this matter should not be a priority to the IASB because he thinks that there are not many entities that restate and there are other projects which are more urgent. Some of the IFRS IC members also considered that it is too costly to instigate standard-setting on this matter and it is not the best solution due to time restraints. The staff replied that, given there are two matters (the submission and the related matter) close enough to be addressed together, that restating does not work on the related matter, and that IAS 21 has some missing pieces and can therefore not address the two matters, there are grounds for the IFRS IC to suggest standard-setting. Some acknowledged that standard-setting is not a perfect solution, but it would close the gap in some of the scenarios, and would therefore not be an inappropriate solution. There was still one IFRS IC member who said that restating may be more meaningful to investors but that there are entities who restate. The staff said that this will be presented to the IASB as well.

IFRS IC decision

All IFRS IC members agreed with the recommendation to refer the matter to the IASB and the IFRS IC will present to the IASB all the facts and analysis, including the merits of restating.

Input on IASB project

Climate-related Risks in the Financial Statements (Agenda Paper 4)

The focus of the project is to explore whether and how financial statements can better communicate information about climate-related risks. This project and the work of the International Sustainability Standards

Board (ISSB) complement each other, helping investors to connect information included in different parts of general purpose financial reports.

The staff sought feedback on the following:

- Nature of concern:
    - What concerns do IFRS IC members have about the reporting of climate-related risks in the financial statements?
    - How prevalent is the issue in IFRS IC members' jurisdiction?
- Causes of concern:
    - What are the causes of the concerns IFRS IC members identified in Question 1?

      Particularly, the staff would like to see IFRS IC members' feedback on the following:
        - Financial statement information appears inconsistent with disclosures made elsewhere about climate-related risks
        - Insufficient information about how climate-related risks are reflected in the financial statements
        - Unclear requirements in Accounting Standards
        - Lack of compliance
        - Limitations in IFRS Accounting Standards
        - User information needs beyond the objective of financial statements
- Courses of action:
    - How could the IASB address these concerns?

      To help entities properly consider climate-related risks, the IASB could explore:
        - Possible minor amendments to IFRS Accounting Standards
        - Limited new application guidance
        - New illustrative examples
        - Educational material
- Scope of the project:
    - Should the IASB consider expanding the scope of the project to cover:
        - Risks in addition to those related to climate
        - Opportunities as well as risks

The appendix to the paper included examples of the type of feedback that the staff are interested in, which included impairment of assets, recognition of liabilities and disclosures of assumptions and other sources of estimation uncertainty.

IFRS IC discussion

IFRS IC members shared their thoughts on different areas of the project:

On nature and courses of concerns, some IFRS IC members commented that there is iinsufficient information about how climate-related risks are reflected in the financial statement because some risks may not affect the current financial statements quantitatively but are not being currently disclosed. However, disclosure of those may be useful. One IFRS IC member admitted that it would be difficult to distinguish which risks affect the entity at present and which will affect the entity in the future, and among these, which to disclose.

Some IFRS IC members said they observed inconsistency in disclosures in financial statements with those made elsewhere about climate-related risks. Even though they are not "material" to financial statements quantitatively, they could be considered material applying the materiality definition in IAS 1 and the IFRS Practice Statement 2 if they are considered "relevant" or "important" and users of the financial statements expect to see them. However, some IFRS IC members commented that it would be redundant, not useful to users and bring some general forward-looking information to be disclosed in the financial statements. Accordingly, they suggested that it should not be a generic disclosure of risk and uncertainty but of those risks and uncertainties that may affect the recognition and measurement of assets and liabilities.

Some of the IFRS IC members said that there are limitations in the current accounting standards that apply to asset and liabilities affected by climate risks. For example, a net zero commitment does not result in a provision to be recognised under IAS 37 because it relates to future cost to be incurred. If there is no provision, users will expect disclosures that such a commitment is made. Some of the IFRS IC members expressed concerns on how the current standards (IFRS 9 and IFRS 13) address classification and measurement of assets and liabilities affected by climate risk. The strategy of an entity and long-term effect that the regulatory or other risks bring could not be addressed by existing Standards. For the suggestion of removing the 5-year forecast criteria in IAS 36, all those who commented did not agree with that.

In terms of courses of action, some IFRS IC members considered that there is no deficiency in the Standards with regard to the application to assets and liabilities affected by climate or other risks. Most IFRS IC members considered that publishing educational material would be a possible course of action because it is faster and easier to execute, and useful for preparers and users to have guidance. A few of them considered illustrative examples (like for IAS 36 and IAS 37) would be helpful. However, the staff doubted the enforceability of educational material and difficulties in auditing resulting information. IFRS IC members said that while examples illustrating how the concepts and principles in a standard apply to certain scenarios are not a perfect solution but are considered meaningful. A few IFRS IC members commented on IAS 36, saying it may be possible to consider re-opening IAS 36 to brainstorm what is worth amending. One IFRS IC member said the extensive disclosure requirements under IAS 36 for cash-generating units may be useful for climate and other risks disclosures and suggested it could be applied to other long-life assets as well. It was therefore recommended for future standard-setting.

Regarding the scope of project, most IFRS IC members said that it should not be too narrow to cover climate risk only but to cover some other risks (e.g. other sustainability-related risks and political risks) which affect an entity materially. Nonetheless, they understood it would be challenging to do so within a short time frame. One IFRS IC suggested addressing climate risk as the starting point, followed by other risks so that it could be done in a short time. However, some IFRS IC members highlighted the practicability of only addressing climate risks because it may be challenging to separate climate risks from other risks when valuing financial instruments.

Business Combinations under Common Control (BCUCCs) (Agenda Paper 6)

The paper introduced how the two methods, IFRS 3 acquisition method (AM) and book-value method (BVM), which are commonly applied for a BCUCC, work. A BCUCC that affects non-controlling shareholders (NCS) is illustrated.

The feedback on the IASB's preliminary views on the principle of selecting the measurement method are as follows:

- Neither method should apply in all cases:

    - Overall: most respondents agreed but some (from various jurisdictions) said a BVM should apply to all BCUCCs.
    - Users: almost all users (except users from China) agreed; almost all users from China said a BVM should apply to all BCUCCs
- Apply the AM to BCUCCs that affect NCS with limited exceptions:
    - Overall: many respondents agreed but many others (from various jurisdictions) disagreed
    - Users: all users (except users from China) agreed for the illustrative scenario above; almost all users from China said a BVM should apply
- Apply a BVM in all other cases:
    - Overall: many respondents agreed but many others disagreed, most of which said to apply the AM in specific circumstances (most commonly if the receiving entity has publicly traded debt)
    - Users: almost all users agreed for a pre-IPO scenario. For a scenario where the receiving entity has bank debt and publicly traded debt most users agreed but some said the AM should apply

The paper also set out the options for project direction:

- Recognition, measurement and disclosure requirements (Option 1)
    - Detailed requirements, for example, include which method(s) to apply in principle; exceptions, including exploring possible new exceptions in more detail; and how to apply a book-value method
    - Prescribing one approach would not meet all users' information needs; and allowing entities a choice might meet user information needs in their jurisdiction but would not reduce diversity or always meet user information needs
- Disclosure-only requirements (Option 2)
- Discontinue the project and not develop any reporting requirements (Option 3)

The questions for discussion included the following:

- What problems are caused by the gap in IFRS Accounting Standards for reporting BCUCCs?
    - Since the project was added to the IASB's agenda in 2007, is practice largely settled or are there significant challenges in accounting for BCUCCs?
- Do IFRS IC members have specific examples where the reporting for a BCUCC resulted in financial statements that were misleading or failed to provide useful information
- Considering the criteria in the due process handbook, which options for project direction do IFRS IC members think the IASB should choose?

IFRS IC discussion

IFRS IC members shared their thoughts on different areas of the project:

Most of the IFRS IC members generally agreed that BCUCCs happened frequently and there is "diversity" in practice and lack of comparability. However, the diversity comes in different forms, it could be using AM vs

BVM, or different methods of AMs or BVMs used, as a result of different fact patterns. Some IFRS IC members commented that they are not common in their jurisdictions. When they happen and BVM is applied, there is pressure from investors because it is comparable with buying by NCI where AM is used. On the other hand, another IFRS IC member sees entities are using BVM in BCUCCs in his jurisdiction. One IFRS IC member commented that there is no diversity for those that do not involve NCI while there is diversity for those NCI is involved and it is complicated to apply AM. One IFRS IC member commented that there was diversity in practice in the past but has largely settled now.

A few IFRS IC members commented that some BCUCCs resulted in misleading information or investors may expect more information (e.g. fair value even though BVM is applied) but they did not not give very specific examples on those.

Some IFRS IC members chose Option 1 for the project direction because they considered it useful to provide more guidance to prepares, and also for auditor and investors to reference to, while other IFRS IC members said Option 1 may not be able to address all fact patterns given there are too many different fact patterns. In addition, there are many players involved like regulators and jurisdictions, and the accounting requirements may not be able to cater for their needs. Therefore, they considered that Option 2 is the preferred option because it gives more flexibility while providing useful information by making disclosures. One IFRS IC member who opted for Option 1 said adding requirements in IFRS Accounting Standards does not mean mandating either one method. She suggested a decision tree could be provided to help users to make the decision. A number of IFRS IC member said their initial thought was Option 1 because it would be good to bring guidance into authoritative literature but considering this solution is time-consuming and not cost-effective, they opted for Option 2 eventually because it adds transparency and at the same time is more cost-effective, simpler and shorter time is needed. For Option 2, a few IFRS IC members suggested asking investors' input on what kind of information they expect to find in disclosures. One IFRS IC member opted for a hybrid of Options 1 and 2, meaning giving indicators for consideration to determine which accounting method to use. None of the IFRS IC members considered the IASB should do nothing (i.e. Option 3).

Administrative matters

IFRIC Update March 2023 (Agenda Paper 1)

The update from March 2023 meeting was presented to the IFRS IC. No comments were raised.