Deloitte.

IAS Plus

IASB

Meeting Summary

September 2023

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

Overview 2
Work plan 3
  Update (Agenda Paper 8) 3
Rate-regulated Activities 4
  Cover note (Agenda Paper 9) 4
  Measurement—credit and other risks (Agenda Paper 9A) 5
  The direct (no direct) relationship concept—Report on findings from the survey (Agenda Paper 9B) 5
  The direct (no direct) relationship concept—Survey and background information document (Agenda Paper 9C) 6
Equity Method 6
  Cover paper (Agenda Paper 13) 6
  Towards an Exposure Draft—Implications of applying the IASB's tentative decisions to investments in subsidiaries in separate financial statements (Agenda Paper 13A) 7
  Towards an Exposure Draft— Implications of applying the IASB's tentative decisions to investments in joint ventures (Agenda Paper 13B) 8
  Towards an Exposure Draft—Possible improvements to disclosure requirements for investments in associates (Agenda Paper 13C) 8
  Towards an Exposure Draft—Project scope (Agenda Paper 13D) 10
Climate-related Risks in the Financial Statements 10
  Cover paper (Agenda Paper 14) 11
  Project objective (Agenda Paper 14A) 11
  Results of work on the nature and causes of concern (Agenda Paper 14B) 11
  Potential actions (Agenda Paper 14C) 11
Amendments to the Classification and Measurement of Financial Instruments 12
  Summary of feedback from comment letters (Agenda Paper 16) 12
Business Combinations—Disclosures, Goodwill and Impairment 15
  Cover paper (Agenda Paper 18) 15

Interaction with the IASB's project Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures (Agenda Paper 18A) 15
Transition and first-time adopters (Agenda Paper 18B) 16
Due process and permission to begin the balloting process (Agenda Paper 18C) 17
Extractive Activities 17
Cover paper (Agenda Paper 19) 17
Analysis of disclosure suggestions (Agenda Paper 19A) 18
Removing the temporary status of IFRS 6 (Agenda Paper 19B) 19
Business Combinations under Common Control 20
Cover paper (Agenda Paper 23) 20
Whether to change project direction (Agenda Paper 23A) 20
Whether to choose a disclosure-only project (Agenda Paper 23B) 20
Due Process Handbook assessment (Agenda Paper 23C) 20
Second Comprehensive Review of the *IFRS for SMEs* Accounting Standard 21
Cover paper (Agenda Paper 30) 21
Project plan (Agenda Paper 30A) 22
Characteristics of SMEs (Agenda Paper 30B) 22
Approach to providing educational material on the Standard (Agenda Paper 30C) 22
Proposed revised Section 23 *Revenue from Contracts with Customers*—Fieldwork methodology (Agenda Paper 30D) 23
Proposed revised Section 23 *Revenue from Contracts with Customers*—Findings from fieldwork (Agenda Paper 30E) 24
Impairment of financial assets (Agenda Paper 30F) 24
Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures 25
Approach to maintenance (Agenda Paper 31) 25
Interaction with the IASB's project Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures (Agenda Paper 18A) 26

Overview

The IASB met in London on 19-21 September 2023. The following topics were discussed:

Work plan: The IASB received an update on its work plan. No decisions were made.

Rate-regulated Activities: The IASB redeliberated the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities* and made decisions on credit and other risks and the direct (no direct) relationship concept.

Equity Method: The IASB made decisions on the implications of applying its tentative decisions (for investments in associates) to investments in subsidiaries in separate financial statements, and joint ventures. The IASB also decided to propose amendments to improve the disclosure requirements for investments in associates but decided to retain the project's scope.

Climate-related Risks in Financial Statements: The IASB decided that the objective of the project is to explore whether and, if so, how targeted actions could improve the reporting of financial information about climate-related and other uncertainties in the financial statements. The IASB also decided on the proposed potential actions to help address concerns about reporting the effects of climate-related risks in the financial statements.

Amendments to the Classification and Measurement of Financial Instruments: The IASB discussed the feedback received in response to the Exposure Draft. No decisions were made.

Business Combinations—Disclosures, Goodwill and Impairment: The IASB received a summary of tentative decisions made to date and made decisions about the remaining technical aspects of this project. The IASB also gave permission to ballot an Exposure Draft.

Extractive Activities: The IASB decided not to develop requirements or guidance on the information an entity discloses about its exploration and evaluation expenditure and activities. However, the IASB agreed to remove the temporary nature of the exemption in IFRS 6.

Business Combinations under Common Control: The IASB discussed the project direction and the measurement method to apply to a business combination under common control. No decisions were made.

Second Comprehensive Review of the *IFRS for SMEs* Standard: The IASB discussed overarching topics, which will assist the IASB in its redeliberations of the proposals in Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard*. The IASB also discussed specific proposals in the ED with regard to revenue and impairment of financial assets. On impairment, the IASB decided that the problem it addressed in introducing the ECL model in IFRS 9 does not meet its principle of relevance to SMEs because the population of entities eligible to apply the *IFRS for SMEs* Accounting Standard that have significant exposure to credit risk is expected to be small.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures: The IASB decided to propose amending the new Standard to require an eligible subsidiary to disclose the strategic rationale for undertaking a business combination and whether the discount rate used in calculating value in use is pre-tax or post-tax. In addition, the IASB decided to ensure the wording of the disclosure requirement in the new Standard in relation to IFRS 3:B64(i) aligns with the proposals made by the IASB in the project on Business Combinations—Disclosures, Goodwill and Impairment and to amend the new Standard to require an eligible subsidiary to disclose information about the contribution of the acquired business.

Work plan

In this session, the IASB received an update on its work plan.

Update (Agenda Paper 8)

This paper provided an update on the IASB's work plan since its last update in May 2023. The purpose of this paper was to provide a holistic view of the IASB's technical projects to support decisions about whether to add or remove projects, as may be discussed in individual project papers and enable assessment of overall progress on the work plan, including project prioritisation and timing.

The staff did not ask the IASB to make any decisions.

Completed Projects

In May 2023, the IASB issued *International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)* and *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)*. In August 2023, the IASB issued *Lack of Exchangeability (Amendments to IAS 21)*.

New projects

<u>Active projects</u>

In July 2023, the IASB added a maintenance project to its work plan to research whether feasible narrow-scope amendments to IFRS 9 could be made for power purchase agreements. This project arose from a recommendation from the IFRS Interpretations Committee (IFRS IC) in June.

Pipeline projects

Use of a Hyperinflationary Presentation Currency by a Non-hyperinflationary Entity has been added to the pipeline based on a recommendation from the IFRS IC in June.

Update to the Subsidiaries without Public Accountability: Disclosures Standard was added as discussed at the IASB meeting in July 2023.

In Q4 2023, the IASB will consider updated information about whether to start its post-implementation reviews on IFRS 16 and the hedge accounting requirements in IFRS 9.

Expected project completions in about the next six months

The staff expects that the IASB will issue:

- Amendments to the *IFRS for SMEs* Accounting Standard for *International Tax Reform—Pillar Two Model Rules* in September 2023
- IFRS Accounting Standard X—*Presentation and Disclosure in Financial Statements* in H1 2024
- IFRS Accounting Standard X—*Subsidiaries without Public Accountability: Disclosures* in H1 2024

Consultation documents in about the next six months

The staff expects that the IASB will publish:

- Exposure Draft—*Financial Instruments with Characteristics of Equity* in Q4 2023 or Q1 2024
- Exposure Draft—*Business Combinations—Disclosure, Goodwill and Impairment* in H1 2024

IASB discussion

There was no significant discussion on this agenda item.

Rate-regulated Activities

In this session, the IASB redeliberated the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities*, in particular on credit and other risks and the direct (no direct) relationship concept.

Cover note (Agenda Paper 9)

At this meeting, the IASB redeliberated the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (ED). The staff prepared three papers on two topics:

- Credit and other risks:
    - Agenda Paper 9A on credit and other risks affecting the estimates of future cash flows arising from regulatory assets and regulatory liabilities
- Responses to a survey on the direct (no direct) relationship concept:
    - Agenda Paper 9B on the analysis of the responses and recommendations on the next steps
    - Agenda Paper 9C on the survey and the background information document, which is for information only

Measurement—credit and other risks (Agenda Paper 9A)

This paper set out the staff analysis and recommendations on the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (ED) on credit and other risks affecting the estimates of future cash flows arising from a regulatory asset or a regulatory liability.

Staff recommendation

The staff recommended that:

- The final Accounting Standard retains the proposal in paragraphs 37 and 38 of the ED to require that in estimating future cash flows arising from a regulatory asset or regulatory liability, an entity:
    - Reflects the uncertainty about the amount or timing of the future cash flows
    - Assesses whether the entity bears the uncertainty in the future cash flows or whether customers bear the uncertainty
- When an entity bears credit risk, the final Accounting Standard specifies that the entity:
    - Estimates the uncollectible amounts considering the net cash flows that will arise from the recovery of regulatory assets and the fulfilment of regulatory liabilities
    - Allocates the estimate of uncollectible amounts to regulatory assets only
- The final Accounting Standard retains the proposal in paragraph 43 of the ED to require that an entity's estimates of future cash flows arising from a regulatory liability should not reflect the entity's own non-performance risk

IASB discussion

Some IASB members commented on the term "net" cash flows used in the second recommendation that it should mean net cash flows within the same agreement. Some IASB members agreed that the ECL model in IFRS 9 is not applicable for rate-regulated assets but one could apply the principle as reference.

One IASB member agreed with the recommendation not to provide additional guidance on demand risk but requested for references to be made to guidance in the finalised standards.

IASB decisions

All 13 IASB members present voted in favour of the staff recommendations.

The direct (no direct) relationship concept—Report on findings from the survey (Agenda Paper 9B)

This paper set out:

- The staff's analysis of the responses to a survey on the direct (no direct) relationship concept
- The staff's recommendations on next steps

Staff recommendation

The staff recommended that the final Accounting Standard:

- Includes the direct (no direct) relationship concept to help an entity to identify differences in timing arising from the regulatory compensation the entity receives on its regulatory capital base
- Specifies that if an entity is able to trace differences between the regulatory capital base and the property, plant and equipment at an asset level, this is a strong indicator that there is a direct relationship
- Specifies that in the case of service concession arrangements, an entity determines whether there is a direct (no direct) relationship between the regulatory capital base and the intangible asset that arises from the service concession arrangement

- Includes examples to illustrate how an entity determines the direct (no direct) relationship using specific fact patterns

IASB discussion

IASB members commended the staff on the survey and said that it provided helpful guidance to respondents in considering a new concept that was not included in the ED. IASB members also acknowledged the extensive outreach and follow-up carried out by the staff with various stakeholders in different jurisdiction so that an all-encompassing view can be considered in drafting the Standard.

A few IASB members acknowledged that there will be circumstances in which stakeholders will have to exercise judgement to determine if they have a direct (no direct) relationship as the Standard will not capture all refinements because it is principle-based.

Some IASB members also commented that it would be helpful to provide illustrative example in the Standard to help stakeholders apply judgement when they have difficulty determining whether it has a direct (no direct) relationship.

IASB decisions

All 13 of the IASB members present voted in favour of the staff recommendation.

The direct (no direct) relationship concept—Survey and background information document (Agenda Paper 9C)

This paper included the survey used to gather input on the direct (no direct) relationship concept and the background information document accompanying the survey.

The survey and the background information document was provided for information only and was not discussed during the meeting.

Equity Method

The purpose of this meeting was to discuss the implications of applying the IASB's tentative decisions (for investments in associates) to investments in subsidiaries in separate financial statements, and joint ventures; whether to propose amendments to improve the disclosure requirements for investments in associates; and whether to expand the project's scope.

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 discuss:

- The implications of applying its tentative decisions (for investments in associates) to investments in subsidiaries in separate financial statements and joint ventures
- Whether to propose amendments to improve the disclosure requirements for investments in associates
- Whether to expand the project's scope

This paper was not discussed.

Towards an Exposure Draft—Implications of applying the IASB's tentative decisions to investments in subsidiaries in separate financial statements (Agenda Paper 13A)

At its July 2023 meeting, the IASB concluded its discussions on application questions in the scope of the Equity Method project for investments in associates. The IASB's approach was to develop answers to the application questions for investments in associates and, later, consider any implications to other investments accounted for applying the equity method.

The purpose of this paper was to:

- Discuss application of the equity method to investments in subsidiaries in separate financial statements
- Summarise informal feedback from outreach with national standard-setters and regional bodies (NSSs) in jurisdictions where parent entities prepare separate financial statements and account for investments in subsidiaries using the equity method as applicable in IAS 28
- Consider the staff's preliminary analysis on possible ways forward

In this paper, the staff discussed the type of reporting entities covered by the paper, the concept of control in IAS 27 and the informal feedback from outreach with NSSs.

The staff also identified two possible alternatives as the way forward:

- Alternative 1—Equity method as applicable in IAS 28 (i.e. equity method as it would be amended by the IASB's tentative decisions)
- Alternative 2—Equity method as applicable in IAS 28, with a requirement to restrict gains or losses from transactions between the parent and its subsidiaries

The IASB was asked if they have comments or questions on the preliminary analysis and for their views on the alternatives set out in the paper.

IASB discussion

Most IASB members who provided their views on the alternatives set out in the paper preferred Alternative 1.

Some IASB members said that Alternative 2 was equivalent to creating another equity method. Many IASB members said that the changes proposed through Alternative 2 were beyond the scope of this project and they did not think the cost-benefit analysis would support it. A few IASB members also stated that this seemed to be a jurisdictional issue which can be addressed at that level and that Alternative 2 should not be adopted to address specific jurisdictional issues. A few IASB members stated that the problem was that IAS 27 provided three diverse options for accounting for subsidiaries in separate financial statements and that the issue was not coming from IAS 28.

One IASB member preferred Alternative 2 as another approach might result in differences in separate and consolidated financial statements. He mentioned that the separate financial statements are used for various purposes such as taxes, compliance, etc. and these should not be different from consolidated financial statements if both are prepared in accordance with IFRS.

Some IASB members said that it might be useful to understand the objective of separate and consolidated financial statements in different jurisdictions and the kind of information being used from these financial statements and whether they are impacted by these alternatives.

Towards an Exposure Draft— Implications of applying the IASB's tentative decisions to investments in joint ventures (Agenda Paper 13B)

At its July 2023 meeting, the IASB concluded its discussions on application questions in the scope of the Equity Method project for investments in associates. The IASB's approach was to develop answers to the application questions for investments in associates and, later, consider any implications to other investments accounted for applying the equity method.

The purpose of this paper was to:

- Discuss application of the equity method to investments in joint ventures
- Consider the staff's preliminary analysis on whether the IASB's tentative decisions continue to hold for investments in joint ventures

In this paper, the staff provided its preliminary analysis on whether IASB's tentative decisions related to 'purchasing an additional interest' and 'transactions with equity-accounted investments' continue to hold for investments in joint ventures. In the staff's view, the IASB's rationale for both tentative decisions continue to hold for investments in joint ventures.

The IASB was asked if they have comments or questions on the preliminary analysis in the paper.

IASB discussion

Most IASB members agreed with the staff's view that the tentative decisions continue to hold for investments in joint ventures as well. Some IASB members acknowledged that while associates and joint ventures are not the same, preparers should not apply the equity method differently. Some IASB members also said that applying a different method may create further issues when an associate changes to a joint venture or vice versa. A few IASB members mentioned that applying different decisions to joint ventures was beyond the scope of the project and that the IASB should not introduce new principles through this project. One IASB member thought it would be useful to understand the staff's view on whether there were any drawbacks of applying the tentative decisions to associates and joint ventures equally. A few IASB members pointed out that it was important that the questions raised to the Accounting Standards Advisory Forum (ASAF) are precise and relevant, and to understand their feedback.

Towards an Exposure Draft—Possible improvements to disclosure requirements for investments in associates (Agenda Paper 13C)

The purpose of this paper was to ask the IASB to decide whether to propose amendments to improve the disclosure requirements for investments in associates arising from its tentative decisions on the Equity Method project to date.

At its September 2022 meeting, the IASB discussed how an investor recognises and measures changes in an associate's net assets that change the investor's ownership interest when the investor retains significant influence (dilution gains or losses). Applying the IASB's tentative decision, an investor would recognise a gain or loss in its profit or loss, as in a partial disposal whilst retaining significant influence.

At its June 2023 meeting, the IASB tentatively decided how an investor would recognise and measure contingent consideration on obtaining significant influence in an associate. The IASB's tentative decision was derived from the recognition and measurement requirements for contingent consideration in IFRS 3.

At its March 2023 meeting, the IASB tentatively decided to propose that an investor should recognise the full gain or loss on all transactions with an associate. The IASB said it would consider improvements to the disclosure of these transactions. IAS 24:18 requires disclosing the amount of these transactions and the amount of any outstanding balances.

Staff recommendation

The staff recommended that the IASB propose amendments to IFRS 12:

- To require an investor to disclose gains or losses arising from an increase or decrease in the associate's net assets that changes the investor's ownership interest if the investor continues applying the equity method and does not exchange consideration with its associate (Recommendation 1)
- To require an investor to disclose, for contingent consideration arrangements (Recommendation 2):
    - *On obtaining significant influence in an associate*—the amount recognised at the acquisition date; a description of the arrangement and the basis for determining the amount of the payment; and an estimate of the range of outcomes (undiscounted)
    - *For each reporting period after the acquisition date until the investor collects or settles the contingent consideration or it is cancelled or expires*—any changes in the recognised amounts, including any differences arising upon settlement; any changes in the range of outcomes (undiscounted) and the reasons for those changes; and the valuation techniques and key model inputs used to measure the contingent consideration
- To require an investor to disclose gains or losses resulting from transactions with its associates (Recommendation 3)
- To introduce a disclosure objective to disclose information that enables users to evaluate the changes in the amounts in an investor's financial statements arising from investments in associates (Recommendation 4)
- To require an investor to disclose a reconciliation between the opening and closing carrying amount of the investments in associates, to meet the objective in Recommendation 4 (Recommendation 5)

IASB discussion

Most IASB members supported Recommendation 1 as it provides disclosures that were important from a user's perspective, the information was easy to get and it was not expected to be costly to the preparers. A few IASB members said that this would help patch the various disclosure requirements that are currently there. A few IASB members stated that they do not disagree with the staff's recommendation but pointed out that another way to approach this might be through the disaggregation principle being introduced through the Primary Financial Statements (PFS) project and that it would be useful to understand how that principle works with this requirement.

Most IASB members supported Recommendation 3. A few IASB members mentioned that the disclosure was useful and since it only pertained to that specific transaction, it would not require companies to have a carry on tracking effect after the period in which the transaction occurred. A few IASB members mentioned that it was important to think about where this requirement would be placed and how it fits in with the existing disclosure requirements of IFRS 12 and IAS 24. One IASB member did not support the staff recommendation on the basis that the costs would exceed the benefit as it would be difficult for many companies such as those that have many such transaction or have investments spread globally. One IASB member asked if the requirement only pertained to downstream transactions, i.e. from an investors perspective or upstream as well. Based on that question, a few IASB members suggested that the disclosure requirements and related cost-benefit analysis should be done separately for downstream and upstream transactions, as the downstream transaction disclosures might be more useful and are likely to have a lower costs of tracking them as compared to upstream transactions.

Many IASB members supported Recommendations 4-5 as they thought it was information that the users found useful and that it was expected that the preparers would have this information available and could prepare it without incurring significant costs. A few IASB members thought that the staff recommendations were beyond the scope of the project and the PIR of IFRS 12 did not ask directly for these reconciliations. One IASB member suggested that the basis of why this requirement is being introduced should be explained in the basis on why investors find this useful.

IASB decision

All of the 14 IASB members voted in favour of Recommendations 1-2 and 5.

On Recommendation 3 for downstream transactions, 12 of the 14 IASB members voted in favour of the staff recommendation.

On Recommendation 3 for upstream transactions, only 3 of the 14 IASB members voted in favour of the staff recommendation.

On Recommendation 4, 11 of the 14 IASB members voted in favour of the staff recommendation.

Towards an Exposure Draft—Project scope (Agenda Paper 13D)

The purpose of this paper was to ask the IASB whether to extend the scope of the Equity Method project (project scope) for three application questions.

At its meeting in March 2021, the IASB agreed on a process for selecting the application questions to be included in the project scope. When applying the process, there were three application questions with recurrent themes that were excluded from the project scope:

- Ownership interests that currently give access to returns, IAS 28:13
- Reciprocal interests
- Non–coterminous reporting date and dissimilar accounting policies

The staff said they would bring these application questions to a future meeting so that the IASB could decide whether to add them to the project scope.

Staff recommendation

The staff recommended the IASB:

- Retains the project's scope (Recommendation 1)
- To ask in the invitation to comment on the exposure draft (ED) whether the IASB should seek views in its next agenda consultation on adding to its work plan a project on assessing the rights that currently give an investor access to returns when applying IAS 28 (Recommendation 2)

IASB discussion

All IASB members agreed with Recommendation 1. A few IASB members said that the topic on non-coterminous reporting date and dissimilar accounting policies might bring out more practical questions.

Most IASB members did not agree with Recommendation 2.

IASB decision

On Recommendation 1, all IASB members voted in favour of the staff recommendation.

On Recommendation 2, only 2 of the 14 IASB members voted in favour of the staff recommendation.

Climate-related Risks in the Financial Statements

In this session, the IASB discussed the maintenance project on Climate-related Risks in the Financial Statements

Cover paper (Agenda Paper 14)

The objective of this session was to discuss the maintenance project on Climate-related Risks in the Financial Statements. The IASB was asked to decide on the objective of the project and on the proposed potential actions to help address concerns about reporting the effects of climate-related risks in the financial statements.

Project objective (Agenda Paper 14A)

The original project included only climate-related risks in the financial statements. Considering the feedback received by stakeholders, the reporting of climate-related risks in the financial statements might be best achieved if the IASB applies potential actions to all risks rather than to one specific risk, including, where possible, examples specific to climate-related risk.

Staff recommendation

The staff recommended generalising the objective of this project to explore whether and how financial statements can better communicate information about climate-related and other uncertainties.

IASB decision

9 of the 13 IASB members present decided that the objective of this project is to explore whether and, if so, how targeted actions could improve the reporting of financial information about climate-related and other uncertainties in the financial statements.

Because of this decision, the project was renamed to 'Climate-related and Other Uncertainties in the Financial Statements'.

Results of work on the nature and causes of concern (Agenda Paper 14B)

The increasing disclosures about sustainability-related risks and opportunities, including climate-related risks and opportunities, outside the financial statements might have contributed to stakeholder concerns by highlighting potential inconsistencies between the financial statements and information reported elsewhere.

The staff think that some concerns raised by stakeholders can potentially be addressed through articles and educational material, agenda decisions or standard-setting. The IASB will not be asked to make any decisions.

IASB discussion

The discussion was held together with Agenda Paper 14C.

Potential actions (Agenda Paper 14C)

This paper discussed a package of potential actions the IASB could take to help address concerns about reporting the effects of climate-related risks in the financial statements.

Staff recommendation

The staff recommended that the IASB:

- Explore clarifying or enhancing requirements in IFRS Accounting Standards or adding illustrative examples in relation to:
    - Disclosures about estimates
    - Connections within the financial statements as well as across the financial statements and other general purpose financial reports
    - The concept of materiality
    - The 'catch-all' disclosure requirement in IAS 1:31

- Refer to the IFRS Interpretations Committee questions about:
    - The recognition of a liability applying IAS 37 for climate-related commitments
    - The measurement of value in use when an asset is subject to highly variable future cash flows over an extended time horizon for purposes of impairment testing applying IAS 36

IASB discussion

The discussion focused mainly on the need to perform standard-setting activities on climate-related risks in the financial statements.

Some comments were raised with reference to:

- The need to perform a cost-benefit analysis in evaluating standard-setting and providing illustrative examples
- The timing of the publication of educational material
- The analysis of the activity already performed by the ISSB

IASB decision

8 of the 13 IASB members present supported the possibility to explore standard-setting in relation to disclosures about estimates to help address concerns about reporting the effects of climate-related risks in the financial statements.

The majority of IASB members did not support exploring standard-setting with regard to:

- Connections within the financial statements as well as across the financial statements and other general purpose financial reports the standard-setting process in relation (7 of 13 IASB members voted against)
- The concept of materiality (10 of 13 IASB members voted against)
- The 'catch-all' disclosure requirement in IAS 1 (11 of 13 IASB members voted against)

All 13 IASB members present supported the possibility to explore illustrative examples understanding that those will go through the due process.

All 13 IASB members present agreed to submit to the IFRS Interpretations Committee (IFRS IC) a question about the recognition of a liability when applying IAS 37 to climate-related commitments.

9 of the 13 IASB members present agreed to consult the IFRS IC with reference to the measurement of value in use when an asset is subject to highly variable future cash flows over an extended time horizon for purposes of impairment testing applying IAS 36.

Amendments to the Classification and Measurement of Financial Instruments

In this session, the IASB discussed the feedback on Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments*.

Summary of feedback from comment letters (Agenda Paper 16)

In March 2023, the IASB published the Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments* (ED). This paper provided a summary of feedback on the ED from comment letters and outreach events.

The ED proposed the following amendments to IFRS 9:

- Derecognition of a financial liability settled through electronic transfer—to clarify that an entity is required to apply settlement date accounting when derecognising a financial asset or a financial liability and to permit an entity to deem a financial liability that is settled using an electronic payment system to be discharged before the settlement date if specified criteria are met
- Classification of financial assets—to clarify the application guidance for assessing the contractual cash flow characteristics of financial assets, including:
    - Financial assets with contractual terms that could change the timing or amount of contractual cash flows, for example, those with ESG linked features
    - Financial assets with non-recourse features
    - Financial assets that are contractually linked instruments

The ED proposed amendments and additions to IFRS 7 with regard to the following topics:

- Investments in equity instruments designated at fair value through other comprehensive income (OCI)
- Financial instruments with contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event that is specific to the debtor

Summary of feedback

Overview

Over 107 comment letters were received in response to the ED. Some respondents asked the IASB to prioritise finalising the proposals relating to the classification of financial assets with ESG-linked features over other matters and that these amendments should have a different effective date from the other amendments so that entities are able to apply them independently.

Derecognition of a financial liability

Most respondents agreed with the proposed clarification that settlement date accounting is applied when recognising or derecognising financial assets and financial liabilities, although many respondents recommended further clarifying the requirements to avoid unintended consequences. For example, it is unclear how the proposed requirements would apply to derivatives, such as forward contracts, which are recognised on their commitment date.

Most respondents welcomed the proposal to permit derecognition of a financial liability that is settled in cash using an electronic payment system before the settlement date when specified criteria are met, although some raised concerns about the practical application of the proposed criteria. They noted that the criteria are too high a hurdle to overcome in practice resulting in the proposals having little practical benefit. In addition, some respondents asked for similar requirements regarding financial assets.

Classification of financial assets

Many respondents expressed the view that the proposed clarifications of the requirements for assessing the contractual cash flow characteristics of financial assets would be useful in determining the classification of financial assets with ESG-linked features. However, some respondents expressed concerns that the proposals do not provide a sufficiently clear basis for assessing whether particular ESG features are consistent with a basic lending arrangement and that this may lead to unintended consequences for the classification of other financial assets. For example, 'increased cost clauses' in which the lender reserves the right to adjust the interest rate due to changes in tax laws or regulations which increase the cost of lending would be 'a change in contractual cash flows due to a contingent event that is specific to the creditor or another party would be inconsistent with a basic lending arrangement.'

Some respondents said that the proposals do not adequately explain why contingent events that are specific to the debtor are consistent with the concept of basic lending risks and costs. In addition, the example provided in the ED does not provide a clear basis for why those ESG-linked features are considered to be basic lending risks or costs.

For the proposals around 'the occurrence (or non-occurrence) of the contingent event must be specific to the debtor', many respondents observed that this would preclude any instruments from amortised cost measurement if the ESG-linked targets are set at a consolidated level or for a group entity other than the legal debtor. Some respondents also noted that it is unclear whether so-called Scope 3 greenhouse gas emissions, for which an entity is only indirectly responsible, can be considered 'specific to the debtor'.

Most respondents supported the proposed clarifications to the assessment of contractual cash flows in the case of financial assets with non-recourse features and contractually linked instruments, although many respondents commented on some aspects of the proposals. These included concerns over the description of the financial assets with non-recourse features included in the ED.

Disclosure requirements

Many respondents supported the proposed amendments to the disclosure requirements for equity instruments to which the OCI presentation option is applied, although some respondents reiterated their disappointment that the IASB did not reconsider the reclassification of fair value gains or losses accumulated in OCI to profit or loss when an equity instrument is disposed of.

Many respondents, specifically banks and banking organisations, voiced strong objections against the proposed scope of the disclosure requirements relating to contractual terms that could change the timing or amount of contractual cash flows based on a contingent event specific to the borrower, saying that it will place a significant cost on preparers which will outweigh any perceived benefits to investors. These respondents made suggestions for limiting the scope of the proposed disclosure requirements.

IASB discussion

Derecognition of a financial liability

IASB members were pleased about the positive support for the proposals. One IASB member addressed the concerns that the proposals may cause a difference between financial assets and liabilities and lead to an inconsistency in the accounting for intercompany balances by saying that the requirement is optional and therefore preparers can avoid the inconsistency. Another IASB member warned the staff about scope creep, noting that not all issues can be resolved in these narrow-scope amendments.

The feedback noted that by allowing the requirements to be applied on a system-by system basis, there is potential for abuse. IASB members asked that the staff provide more insight into the specific concerns raised in this area.

Classification of financial assets

Respondents noted concerns around a contingent event specific to a debtor which would preclude instruments where the ESG-linked targets are set at a consolidated level. IASB members noted that this is a practical issue and requested that the staff examine if this could be addressed.

Respondents noted a contradiction in the ED. On the one hand, the ED stated that "the assessment of interest focuses on what an entity is being compensated for, rather than how much compensation an entity receives". On the other hand it stated that "a change in contractual cash flows is inconsistent with a basic lending arrangement if it is not aligned with the direction and magnitude of the change in basic lending risks or costs."

IASB members liked that the respondents suggested solutions and thought this should be addressed by amending the language used in the final drafting.

Respondents requested more complex examples and IASB members thought that it is worth expanding the examples. However, IASB members also reminded the project team that the amendments should be objectives-based and do not intend to provide clarity for each fact pattern.

<u>Disclosures</u>

Banks and banking organisations voiced strong objections against the proposed scope of the requirements stating that it will place significant cost on preparers. These respondents provided some areas where the scope could be limited. IASB members asked if the staff could examine this further, specifically with regard to whether the scope has been misunderstood or whether the scope is too broad. If respondents have interpreted the scope more widely than intended, the final wording might need to be more specific.

Some respondents noted that the additional disclosure requirements are unnecessary and the post-implementation review of the classification and measurement requirements did not provide evidence that users require the proposed additional disclosures. IASB members asked the staff to give consideration to how to address and respond to this point.

Respondents suggested that different effective dates could be given to different sections of the amendments. IASB members had mixed views about this.

No decisions were made.

Business Combinations—Disclosures, Goodwill and Impairment

In this session, the IASB received a summary of tentative decisions made to date and made decisions about the remaining technical aspects of this project. The IASB also gave permission to ballot an exposure draft.

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 decisions about remaining technical aspects of the project and to ask the IASB for permission to ballot an exposure draft (ED).

Interaction with the IASB's project Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures (Agenda Paper 18A)

In this paper, the staff set out their analysis and recommendations regarding whether subsidiaries without public accountability should be required to disclose the information that would be required by the tentative decisions made by the IASB during this project.

Based on their analysis, the staff recommended that eligible subsidiaries should be required to disclose:

- The strategic rationale for undertaking a business combination

- Whether the discount rate used to calculate value in use is pre- or post-tax

The staff also recommended that eligible subsidiaries should not be required to disclose any of the other information that would be required by the tentative decisions made by the IASB during this project.

IASB discussion

This topic was discussed in the 'Subsidiaries without Public Accountability: Disclosures' session.

Transition and first-time adopters (Agenda Paper 18B)

In this paper, the staff set out its recommendations regarding transition requirements for the proposed amendments to IFRS 3 and IAS 36.

The staff recommended that the IASB:

- Requires an entity to apply the proposed amendments to IFRS 3 to business combinations for which the acquisition date is on or after the effective date of the amendments, with earlier application permitted
- Requires an entity to apply the proposed amendments to IAS 36 to impairment tests on or after the effective date of the proposed amendments, with earlier application permitted
- Does not provide a specific exemption regarding the proposed amendments for first-time adopters
- Requires an eligible subsidiary to apply the proposed amendments to the *Subsidiaries without Public Accountability: Disclosures* Standard prospectively from the effective date of the amendments, with earlier application permitted

IASB discussion

IASB members generally agreed with the staff recommendations. There was some discussion regarding the interaction between the proposed amendments and voluntary application of the staff recommendations to business combinations occurring before the date of application, and whether it should therefore be clarified that retrospective application should be applied consistently to all relevant historical business combinations rather than a "cherry-picking" approach. Some IASB Members highlighted that overarching requirements in IAS 1 should preclude such an approach.

IASB decisions

When asked to vote on the staff recommendation to apply the proposed amendments to IFRS 3 to business combinations for which the acquisition date is on or after the effective date of the amendments, the IASB voted unanimously in favour.

When asked to vote on the staff recommendation to permit early application, 13 of the 14 members of the IASB voted in favour.

When asked to vote on the staff recommendations to require an entity to apply the proposed IAS 36 amendments to impairment tests on or after the effective date of the proposed amendments, with earlier application permitted, 13 members of the IASB voted in favour.

When asked to vote on the staff recommendation to not provide a specific exemption regarding the proposed amendments for first-time adopters, the IASB voted unanimously in favour.

When asked to vote on the staff recommendations to require an eligible subsidiary to apply the proposed amendments to the *Subsidiaries without Public Accountability: Disclosures* Standard prospectively from the effective date of the amendments, with earlier application permitted, the IASB voted unanimously in favour.

Due process and permission to begin the balloting process (Agenda Paper 18C)

In this paper, the staff outlined the background of the project and its proposals and consider whether the project objective has been met.

The staff also outlined the due process that has been followed by the IASB in developing the proposals and propose a comment period of 120 days for the ED of proposed amendments to IFRS 3 and IAS 36.

Finally, the IASB was asked if it agrees with the staff recommendation to allow a 120-day comment period for the ED, if any IASB members intend to dissent from the proposals, and if the IASB is satisfied that it has complied with due process and therefore gives permission to begin the process for balloting the ED.

IASB decisions

IASB members were generally supportive of the staff recommendation to allow a 120-day comment period. When asked to vote on this recommendation, the IASB voted unanimously in favour.

When asked if any IASB members intended to dissent, none did. However, one IASB member noted that the compromise reached in the decisions taken to date is delicate and that assent is contingent on the final presentation in the ED.

When asked to vote on permission to ballot, the IASB voted unanimously in favour.

Extractive Activities

In this session, the IASB made decisions about whether to develop requirements or guidance to improve the information an entity discloses about its exploration and evaluation expenditure and activities to provide more useful information to users, and whether to remove the temporary nature of the exemption in IFRS 6.

Cover paper (Agenda Paper 19)

At the September 2021 meeting, the IASB decided that the scope and objectives of its research project Extractive Activities should be to explore two aspects of IFRS 6:

- Whether to develop requirements or guidance to improve the information an entity discloses about its E&E expenditure and activities to provide more useful information to primary users of financial statements
- Removing the temporary nature of the exemption in IFRS 6 from the application of IAS 8:11-12

In the September 2021 meeting the IASB also decided:

- Not to explore changing the recognition and measurement requirements for E&E expenditure
- Not address matters that are outside the scope of IFRS 6 as part of a project on extractive activities
- Not develop requirements for the disclosure and use of reserve and resource information in financial statements as part of a project on extractive activities

In this meeting the staff asked the IASB to make decisions about:

- Whether to develop requirements or guidance to improve the information an entity discloses about its exploration and evaluation (E&E) expenditure and activities to provide more useful information to users
- Whether to remove the temporary nature of the exemption in IFRS 6

This paper was not discussed.

Analysis of disclosure suggestions (Agenda Paper 19A)

This paper set out the staff's analysis and recommendations on whether the IASB should develop requirements or guidance to improve the information an entity discloses about its exploration and evaluation (E&E) expenditure and activities.

In September 2022, the IASB decided to explore three aspects of information about E&E expenditure and activities with stakeholders:

- Whether and how entities could disclose better information about the different accounting policies entities apply to E&E expenditure specifically in relation to:
  - Unit of account
  - Nature and type of E&E expenditure
  - When capitalisation starts and stops
- Whether information about cumulative E&E expenditure could be disclosed to help compare entities that apply different accounting policies for E&E expenditure
- Whether information about the risks and uncertainties associated with E&E expenditure and activities could be disclosed

In developing these disclosure suggestions, the staff reviewed:

- Disclosure-related feedback from research conducted between 2018–2021 with stakeholders
- Relevant academic literature
- Relevant jurisdictional requirements and other proposals for providing information about E&E expenditure and activities
- A sample of entities' annual filings to understand what information entities disclose about E&E expenditure and activities

The staff conducted outreach to discuss the disclosure suggestions. The feedback from these outreach activities was discussed with the IASB at its July 2023 meeting.

The analysis of the disclosure suggestions was summarised in the paper.

Staff recommendation

As a result of the staff's analysis set out in the paper, the staff recommended that the IASB should not pursue:

- Developing requirements or guidance to disclose information to help understand how entities account for E&E expenditure
- Developing requirements or guidance to disclose information to help compare entities with different accounting policies for E&E expenditure
- Developing requirements or guidance to disclose information to help understand the risks and uncertainties of entities' E&E activities
- Other suggestions to improve information about E&E expenditure and activities

IASB discussion

A majority of the IASB members indicated that there did not appear to be compelling evidence, based on feedback, to develop requirements or guidance to disclose further information relating to the accounting, diversity, comparability for E&E expenditure, and agreed with the four staff recommendations in Agenda Paper 19A.

One IASB member disagreed with the first staff recommendation as it is thought that the disclosure can be achieved at low cost and would demonstrate awareness for the lack of transparency in this area and highlight the diversity that exists. There was also a suggestion to incorporate educational material and/or illustrative examples to improve accounting policy disclosure in relation to the materiality practice statement and the aggregation and disaggregation that will arise from the PFS project.

Several of the IASB members agreed with all staff recommendations and their comments included:

- Materiality of E&E transactions: The feedback from both users and preparers mentioned that E&E expenses are mostly not material transactions and if material the disclosure is likely to be captured by IAS 1. It was whether there was a problem to be solved by additional guidance and disclosures.
- Cost of disclosures: Most IASB members acknowledged that according to the feedback given by users, additional disclosures are not needed and would lead to further costs, which from a cost-benefit angle, cannot be substantiated.
- Lack of compelling evidence: Most IASB members mentioned that the detail of the work conducted, and the evidence gathered clearly demonstrates why there is no compelling evidence to pursue the additional disclosures and guidance.

IASB decision

12 of the 13 IASB members present agreed with the staff recommendation.

Removing the temporary status of IFRS 6 (Agenda Paper 19B)

This paper this paper set out the staff's analysis and recommendation of whether the IASB should remove the temporary nature of the exemption in IFRS 6 from the application of paragraphs IAS 8:11-12. The staff also presented their analysis and recommendation of whether the IASB should delete IFRS 6:13-14 on which the IASB had requested the staff to research as part of the work on whether to remove the temporary status of IFRS 6.

The staff recommended that the IASB:

- Conclude that the work done in publishing the Discussion Paper *Extractive Activities* in April 2010 and in this Extractive Activities research project constitutes the comprehensive review of the accounting for extractive activities envisaged by the IASB when issuing IFRS 6
- Remove the temporary nature of the exemption in IFRS 6 from the application of IAS 8:11-12
- Retain IFRS 6:13-14 which provide specific requirements for when an entity changes their accounting policy for E&E expenditure
- Amend IFRS 6 to remove the temporary nature of the exemption in IFRS 6 from the application of IAS 8:11-12 as part of the next annual improvements cycle

IASB discussion

Based on the staff recommendations in Agenda Paper 19B, IASB members voted and commented as follows:

- All IASB members voted in agreement on the first staff recommendation
- All IASB members also agreed with the second staff recommendation, and mentioned that leaving the temporary nature of the exemption in IFRS 6 creates an expectation that something will be done and removing it suggests it is complete
- All IASB members agreed with the third staff recommendation. Most IASB members mentioned that removing the temporary nature of the exemption in IFRS 6 calls for the retention of IFRS 6:13-14
- All IASB members agreed with the fourth recommendation. A number of IASB members found difficulty in agreeing whether the amendment is an "annual improvement" as per the Due Process Handbook. However, several IASB members agreed that the amendment should be included in the annual improvements cycle, either through interpretation of paragraph 36 of the Handbook,

interpretation of paragraphs 6.10 and 6.11 of the Handbook or through the fact that the outcome of the above decisions will not have an impact

A majority of IASB members were in favour of the project summary which explains why IASB members decided not to act. However, they would prefer that the project summary is clear and concise in terms of the conclusions and rationale around the decisions. IASB members thought it is useful to capture within the project summary a brief mention of some of the benefits of the educational materials that were suggested for improvements to disclosure. One of the IASB members drew attention to the fact that the conclusions were reached after 20 years of work and that background should be reflected in the summary. The IASB considered this and decided that the history will be incorporated briefly into the summary.

IASB decision

All IASB members present agreed with the staff recommendations.

Business Combinations under Common Control

In this session, the IASB discussed the project direction and the measurement method to apply to a business combination under common control.

Cover paper (Agenda Paper 23)

The IASB published Discussion Paper DP/2020/2 *Business Combinations under Common Control* (BCUCC) in November 2020, with a comment letter deadline of 1 September 2021. In previous meetings, the IASB discussed the project direction for the project on BCUCC. The IASB was not asked to make any decisions regarding project direction.

The purpose of this session is for the IASB to discuss the feedback from various stakeholders to inform the project direction.

Whether to change project direction (Agenda Paper 23A)

This paper summarised and analysed feedback on whether the IASB should choose Option 1 (i.e. develop recognition, measurement and disclosure requirements), or change the project direction and choose Option 2 (i.e. develop disclosure-only requirements) or Option 3 (i.e. develop no recognition, measurement or disclosure requirements).

The paper did not contain any questions for the IASB, but IASB members were asked to raise comments or questions on the feedback and the staff analysis.

Whether to choose a disclosure-only project (Agenda Paper 23B)

Agenda Paper 23A summarised and analysed feedback on whether the IASB should choose Option 1 or change the project direction. This paper summarised and analyses feedback on what the IASB should do if it changes the project direction.

The paper did not contain any questions for the IASB, but IASB members were asked to raise comments or questions on the feedback and the staff analysis.

Due Process Handbook assessment (Agenda Paper 23C)

This paper provided an updated assessment of the Due Process Handbook requirements for a standard-setting project (taking into account stakeholders' feedback and our analysis of that feedback) and explained the staff views on whether to change the project direction and if so, whether to choose Option 2 or Option 3.

This paper did not ask the IASB for decisions.

IASB discussion

All papers were discussed together.

Many IASB members expressed gratitude for the efforts of the staff and stakeholder feedback. IASB members agreed with the staff analysis that the cost benefit analysis also includes costs incurred by auditors and regulators. Many of the IASB members were undecided as to the project direction because whilst business combinations under common control may not be a prevalent issue, it is often a material transaction when it occurs. Some IASB members agreed that further analysis of Option 2 is required to inform their decision. However, other IASB members were concerned about performing further work on Option 2 due to resource constraints and doubted that this would yield a more decision-useful information. In addition, these IASB members considered the application of Option 2 as onerous and, therefore, if the project was to continue, the IASB should opt for Option 1. Some IASB members suggested that the staff could explore variations of Option 1 while other IASB members cautioned against this approach because variations of Option 1 were discussed at length in previous meetings. However, some IASB members were concerned about the duration of the project if the IASB opt for Option 1 because not all stakeholders are aligned on the accounting treatments proposed. The staff clarified that if the IASB decides for Option 2, the efforts would be focused on determining the viability of the project rather than any detailed analysis.

No decisions were made.

Second Comprehensive Review of the *IFRS for SMEs* Accounting Standard

In this session, the IASB discussed overarching topics, which will assist the IASB in its redeliberations of the proposals in Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard*, and two specific proposals in the ED.

Cover paper (Agenda Paper 30)

In September 2022, the IASB published Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (the ED). The ED was open for comment for 180 days, which ended on 7 March 2023.

At its June 2023 meeting, the IASB discussed the feedback on the ED and provided suggestions on questions for the SME Implementation Group (SMEIG) to consider. The IASB also redeliberated the proposed clarification to the definition of public accountability in the ED.

The SMEIG met on 13 July 2023 to discuss the feedback on the ED and provided advice to the IASB.

At the September IASB meeting, the IASB:

- Discussed the following overarching topics, which will assist the IASB in its redeliberations of the proposals in the ED:
  - The project plan
  - Research on characteristics of SMEs
  - Approach to updating the *IFRS for SMEs* educational modules and also when guidance to include guidance in the *IFRS for SMEs* Accounting Standard (the Standard)
- Discussed two topics in the ED:
  - Findings from fieldwork on the proposed revised Section 23 *Revenue from Contracts with Customers*
  - Approaches to address the feedback on the proposals for impairment of financial assets

Project plan (Agenda Paper 30A)

This paper summarised the staff's proposed project direction and plan for redeliberation of the proposals in the ED for the IASB to discuss.

The staff recommended that the IASB finalise the draft Standard as set out in the ED by:

- Continuing to use the alignment approach
- Confirming that the scope of the review is to consider alignment for requirements that are effective at the publication date of the Request for Information

IASB discussion

All IASB members agreed with the staff recommendations to finalise the draft Standard as set out in the ED. Some IASB members raised concerns about the timeline. Specifically, that there is only a short gap between the completion of the IASB's main redeliberations in the first half of 2024 and the planned publication of the third edition of the *IFRS for SMEs* Accounting Standard in the fourth quarter of 2024.

IASB decision

All IASB members voted in favour of the staff recommendations.

Characteristics of SMEs (Agenda Paper 30B)

This paper discussed the characteristics of entities that apply the *IFRS for SMEs* Accounting Standard and the information needs of the users of their financial statements. This paper is intended to help IASB members by providing a context for the redeliberations of the proposals in the ED. This paper was for discussion only and the IASB was not asked to make any decisions on this paper at this meeting.

IASB discussion

IASB members found the research and analysis provided by the staff in this paper are useful and some IASB members in particularly liked the 'map' in Appendix A of the agenda paper for adoption of the *IFRS for SMEs* Accounting Standard by jurisdiction.

No decision was made.

Approach to providing educational material on the Standard (Agenda Paper 30C)

The purpose of this paper was to ask the IASB to:

- Discuss the objective of providing educational material on the Standard; and
- With this objective in mind:
  - Decide on the approach to updating the *IFRS for SMEs* educational modules on the IFRS Foundation website, or providing alternative educational material
  - Discuss how to strike an appropriate balance of providing guidance and examples in the Standard versus providing guidance and examples in separate educational material

The staff have identified four options for the IASB to consider for updating the *IFRS for SMEs* educational modules:

- Option 1—do not update the educational modules, that is withdraw the modules and do not provide similar comprehensive educational material on the Standard
- Option 2—update the *IFRS for SMEs* educational modules
- Option 3—update and improve the *IFRS for SMEs* educational modules

- Option 4—replace the *IFRS for SMEs* educational modules with a new type of educational material, for example eLearning

The staff recommended that the IASB:

- Commits to either updating the *IFRS for SMEs* educational modules or providing similar comprehensive educational material
- Uses the following factors when including guidance in the Standard or separate educational material:
  - In general, guidance should be included in the Standard (and form part of the mandatory requirements) if it meets both of the following factors:
    - It is relevant to many SMEs
    - It is necessary to operationalise principles in Standard
  - In general, guidance should be included in separate educational material if it is:
    - Non-mandatory
    - About specific fact patterns
    - Not relevant to many SMEs

IASB discussion

All IASB members agreed that educational material is necessary for the users of the *IFRS for SMEs* Accounting Standard. Some IASB members raised concerns about the e-learning option and noted the resource constraints for developing e-learnings. Therefore, these members did not support Option 4. Some IASB members noted that Option 2 is the most realistic solution and suggested the staff focus on accessibility and visibility to maximise the return for developing the education material. It is not necessary to have new content and functionality as suggested in Option 3.

In relation to the factors when including guidance in the Standard or separate educational material, some IASB members agreed and liked the factors proposed by the staff. One IASB member suggested that 'non-mandatory' is a general requirement for all guidance to be included in the educational material and not one of the three factors. Some IASB members suggested 'necessary to operationalise principles in Standard' should be the only factor to have guidance in the Standard and the factor in relation to 'relevant only' helps to make the decision on whether guidance is necessary to operationalise principles.

The staff acknowledged some degree of judgement will be necessary to determine whether guidance should be included In the Standard or in separate educational material. There will be situations in which the factors proposed would not be used to make the decision.

IASB decision

All IASB members voted in favour of the staff recommendation that the IASB commits to either updating the *IFRS for SMEs* educational modules or providing similar comprehensive educational material.

No decisions were made on the factors for deciding when guidance belongs in the Standard or in separate educational material and the staff will work on the educational material based on the feedback received from IASB members.

Proposed revised Section 23 *Revenue from Contracts with Customers*—Fieldwork methodology (Agenda Paper 30D)

This paper described the methodology used for the fieldwork on the requirements for revenue proposed in the ED. The paper is provided to assist the IASB in considering the findings from the fieldwork in Agenda Paper 30E of this meeting. This paper was provided for information only and the IASB was not asked to make any decisions.

This paper was discussed together with Agenda Paper 30E.

Proposed revised Section 23 *Revenue from Contracts with Customers*—Findings from fieldwork (Agenda Paper 30E)

This paper discussed the findings from the fieldwork on the requirements for revenue proposed by the IASB in the ED. The fieldwork focused on the judgements that an SME would be required to make when applying Section 23 *Revenue from Contracts with Customers* of the ED. The methodology used for the fieldwork is described in Agenda Paper 30D of this meeting. This paper was provided for information only and the IASB was not asked to make any decisions.

IASB discussion

Agenda Papers 30D and 30E were discussed together.

One IASB member suggested that the staff look at the PIR of IFRS 15 when deciding whether some of the requirements in IFRS 15 are unclear and whether they would be an issue for SMEs to apply those. Some IASB members suggested that the staff give more insights into and context on the feedback (e.g. who made the feedback and why the feedback was made).

Some IASB members thought that the length of the proposed change to Section 23 of the *IFRS for SMEs* Accounting Standard was too long and the length would be problematic for readers.

Some IABS members noted the good work that the staff have put into the two papers and suggested that the staff balance the simplification to be proposed in the Standard and the quality of the information that will be provided as a result of the amendments. Some IASB members were concerned about too many deviations from IFRS 15 if the staff want to address all feedback received.

No decision was made.

Impairment of financial assets (Agenda Paper 30F)

The purpose of this paper was to ask the IASB to:

- Consider feedback on the proposals for impairment of financial assets in the ED
- Provide direction on alternative approaches to address that feedback

If the IASB affirms that the expected credit losses (ECL) model meets the relevance principle for SMEs, the staff seek the IASB's view on whether to explore further any of the following alternatives for incorporating a simplified ECL model into the Standard:

- Alternative 1—retaining or refining the proposals in the ED
- Alternative 2—providing an accounting policy option to use either the simplified ECL model or the incurred loss model
- Alternative 3—only requiring application of the simplified ECL model if an SME provides financing to customers as a main business activity
- Alternative 4—retain an incurred loss model for all SMEs, with additional credit risk disclosures for the small subset of SMEs that provide financing to customers as main business activity

The staff specificly asked the following questions:

- Does the IASB think that the ECL model meets the relevance principle for SMEs?
- If the IASB is not satisfied that the ECL model meets the relevance principle, does the IASB agree to retain an incurred loss model for financial assets measured at cost or amortised cost and consider whether to introduce additional disclosure requirements?

- If the IASB is satisfied that the ECL model meets the relevance principle, which of the alternatives mentioned in this agenda paper would the IASB like the staff to develop further?

IASB discussion

One IASB member agreed that ECL is relevant to both small and big entities. He agreed that applying the ECL model to some financial assets would not meet cost-benefit criteria. However, for complicated instruments applying the ECL model is necessary.

One IASB member noted that the ECL model is not relevant for SMEs and explained that the objective of IFRS 9 is to have a single impairment model. The ED introduced two models for different financial assets which made impairing financial assets under the *IFRS for SMEs* Accounting Standard even more onerous than under IFRS 9.

Some IASB members considered that for most (e.g. 99.9% of) SMEs it would not make a difference whether they applied the incurred loss model or the ECL model. Therefore, they did not think that the ECL model is relevant for SMEs.

Some IASB members agreed that SMEs with more complex lending arrangements should apply the ECL model. Therefore, these IASB members supported Alternative 3.

Some IASB members expressed concerns about what degree of judgement will be applied to define whether an SME provides financing as a primary or major business activity. Some IASB members agreed that this is a scope issue as the fact whether an entity's primary or major business activity is to provide financing should be in the scope of the *IFRS for SMEs* Accounting Standard.

IASB decision

7 of the 14 IASB members decided that the problem the IASB addressed in introducing the ECL model in IFRS 9 does not meet its principle of relevance to SMEs because the population of entities eligible to apply the IFRS for SMEs Accounting Standard that have significant exposure to credit risk is expected to be small. The Chair used his additional casting vote, making the vote 8:7 in favour of the decision.

The staff will bring a paper to a future IASB meeting on Alternative 3, Alternative 4 and other options for further consideration.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

In this session, the IASB discussed the approach to maintenance of the forthcoming IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures*

Approach to maintenance (Agenda Paper 31)

The purpose of this paper was to summarise the IASB's approach to maintenance of the forthcoming IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* (Subsidiaries Standard). The paper did not ask the IASB to make any decisions. It was meant to be read in conjunction with Agenda Paper 18A of the Business Combinations–Disclosures, Goodwill and Impairment project which considers disclosures to be included in the forthcoming amendments to IFRS 3 and IAS 36 and will propose amendments to the Subsidiaries Standard.

Staff summary of how the agreed approach to maintenance is operationalised

Potential amendments to the disclosure requirements in the Subsidiaries Standard will be considered when they arise as a result of changes to disclosure requirements in a proposed new or amended IFRS Accounting Standard. They will be considered individually based on the principles for reducing disclosures, and holistically to ensure that the effect of making the amendments would be proportionate and would preserve the goal of maintaining the usefulness of financial statements of eligible subsidiaries with reduced disclosure requirements.

The staff asked the IASB members whether they have any questions or comments about the summary.

IASB discussion

IASB members agreed with the staff summary but there was otherwise no significant discussion.

Interaction with the IASB's project Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures (Agenda Paper 18A)

In this paper, the staff set out their analysis and recommendations regarding whether subsidiaries without public accountability should be required to disclose the information that would be required by the tentative decisions made by the IASB during this project.

Based on their analysis, the staff recommended that eligible subsidiaries should be required to disclose:

- The strategic rationale for undertaking a business combination
- Whether the discount rate used to calculate value in use is pre- or post-tax

The staff also recommended that eligible subsidiaries should not be required to disclose any of the other information that would be required by the tentative decisions made by the IASB during this project.

IASB discussion

Strategic rationale for undertaking a business combination

IFRS 3:B64(d) requires an entity to disclose the primary reasons for a business combination. In September 2022, the IASB tentatively decided to propose replacing this requirement with a requirement to disclose the 'strategic rationale for undertaking the business combination'.

The Subsidiaries ED did not propose to include a requirement for an eligible subsidiary to disclose the primary reason for a business combination.

Staff recommended that the IASB propose requiring an eligible subsidiary to disclose the strategic rationale for undertaking a business combination.

One IASB member raised a question on whether an eligible subsidiary can leverage the strategic rationale of their group entity or/and whether they are allowed to cross-reference such information in the group financial statements. Other IASB members and staff pointed out that the Subsidiaries Standard prohibits cross-referencing group accounts. Some IASB members expressed the view that where a subsidiary's strategic rationale is to follow the group strategy, it should be clearly stated.

Contribution of the acquired business

IFRS 3:B64(q) and its potential amendment require an entity to disclose, to the extent practicable, information about the contribution of the acquired business.

On balance, the staff considered that the costs of requiring an eligible subsidiary to disclose information about the contribution of an acquired business outweigh the benefits. Therefore, the staff recommended that the IASB does not propose requiring eligible subsidiaries to disclose information about the contribution of the acquired business (as amended by the IASB's tentative decisions in the Business Combinations—Disclosures, Goodwill and Impairment).

Most IASB members believed that eligible subsidiaries would need to provide such information for group reporting purposes such that incremental costs should be limited.

Various other views were expressed, including that;

- Segregating the required data would be more costly once the acquired business had been integrated into an existing business
- Costs would increase in cases where the year-end of the eligible subsidiary differed to that of its parent group
- Debt providers would likely have similar information requirements at both consolidated and subsidiary levels

IASB decision

For the following topics, all IASB members agreed with the staff recommendation:

- Disclosure objectives
- Strategic rationale for undertaking a business combination
- Information about the subsequent performance of a business combination
- Liabilities arising from financing activities and defined benefit pension liabilities
- Segments to which goodwill is allocated
- Discount rate used for cash flow projections

<u>Contribution of the acquired business</u>

10 out of 14 IASB members agreed to propose amending the new Standard to require an eligible subsidiary to disclose information about the contribution of the acquired business.