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Pre-meeting Summary

October 2023

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Preview

The IASB will meet in London on 25-26 October 2023. The following topics are on the agenda:

Dynamic Risk Management: The IASB will discuss the staff's preliminary view on the scope of the Dynamic Risk Management (DRM) model, that is the type of risk management activities for which the application of the DRM model would be appropriate and provide useful information. The staff will present their view on what would be the relevant characteristics of a risk management strategy and activities can be inferred from the elements of the DRM model, such as the Current Net Open Position and the Risk Mitigation Intention, as well as the business activities that give rise to the interest rate risk exposure. The IASB will not be asked to make any decision at this meeting.

Rate-regulated Activities: The IASB will make decisions on the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities*, in particular on the direct (no direct) relationship concept and the boundary of a regulatory agreement.

Maintenance and consistent application: The purpose of this session is to ask IASB members whether they object to several agenda decisions that have been published by the IFRS Interpretations Committee.

Equity Method: The IASB will decide on whether to apply its previous tentative decisions on application questions for investments in associates to parents that elect to use the equity method to investments in subsidiaries in their separate financial statements, and to investments in joint ventures.

Amendments to the Classification and Measurement of Financial Instruments: The IASB will discuss feedback on the Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments*, in particular feedback received about contractual terms that are consistent with a basic lending arrangement. The IASB will not be asked to make any decisions.

Primary Financial Statements: The IASB will discuss sweep issues that arose when the staff balloted the new IFRS 18 *Presentation and Disclosure in Financial Statements.* The sweep issues relate to aggregation and disaggregation, and other topics identified, including requiring presentation of cost of sales separately from any other expenses classified by function if the entity classifies operating expenses by function that include cost of sales.

Second Comprehensive Review of the *IFRS for SMEs* Standard: The IASB will continue the redeliberation of its proposals in the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard*. The IASB will make decisions on the following topics: revenue from contracts with customers; consolidated and separate financial statements; recognition of development costs for intangible assets; recognition of borrowing costs for qualified assets; and recent amendments to full IFRS Accounting Standards.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures: The IASB will decide whether to make amendments to the sections related to IFRS 2, IFRS 3, IFRS 7, IFRS 12, IFRS 15, IFRS 16, IAS 2, IAS 7, IAS 12, IAS 19, IAS 29, IAS 37, and IAS 41 to clarify the disclosure requirements and make them more consistent across the Standards.

Dynamic Risk Management

In this session, the IASB will discuss the staff's preliminary view on the scope of the Dynamic Risk Management (DRM) model, that is the type of risk management activities for which the application of the DRM model would be appropriate and provide useful information.

Scope of the DRM model (Agenda Paper 4)

In this session, the IASB will discuss the staff's preliminary view on the scope of the Dynamic Risk Management (DRM) model, that is the type of risk management activities for which the application of the DRM model would be appropriate and provide useful information. The IASB will not be asked to make any decision at this meeting, but questions or comments on the potential scope of the DRM model will be welcome.

In this paper the staff recalls the two approaches discussed on Discussion Paper DP/2014/*1 Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging* (2014 DP) for the scope of the DRM model. The staff will present their analysis on which approach would be appropriate.

Scope of the 2014 DP

The staff points out that DRM may be undertaken by a wide range of entities, from financial institutions to utilities or even some manufacturing entities and that the types of risks that can be dynamically managed vary. However, when developing the 2014 DP, the IASB tentatively decided to focus on the way in which banks dynamically manage their interest rate risk as a starting point for the DRM project.

The two approaches for the DRM scope were discussed and analysed in the 2014 DP. The first focusing on the DRM and the second focussing on the risk mitigation. The key difference between these approaches is related to the treatment of the unhedged portion of the underlying portfolios, but both approaches presented issues and challenges which were often interrelated.

Respondents had mixed views in response to the 2014 DP, although many preferred a scope focused on risk mitigation to a scope focused on DRM activities.

Staff analysis

The staff considered the two approaches discussed in the 2014 DP when developing the DRM model, and intends to combine the best characteristics of each alternative.

For instance, identifying the Current Net Risk Position (CNOP), aggregating the variability of an entity's financial assets and financial liabilities attributable to changes in a particular benchmark interest rate, as a starting point in the DRM model is aligned to the way an entity usually monitors and manages its net interest rate risk in practice. The CNOP ensures greater consistency between what is reflected in the financial statements and what the entity does from a risk management perspective. Therefore, the DRM model retains the advantage of a scope focused on DRM.

On the other hand, the Risk Mitigation Intention (RMI), which represents the extent to which an entity intends to mitigate the CNOP through the use of derivatives, ensures the measurement of DRM adjustment reflects the extent to which the entity's has been successful in its risk mitigation activities. As a result, the DRM model also shares many advantages with the risk mitigation approach.

The staff will present their view on what would be the relevant characteristics of a risk management strategy and activities can be inferred from the elements of the DRM model, such as the CNOP and the RMI, as well as the business activities that give rise to the interest rate risk exposure.

Business activities that give rise to repricing risk

The staff's view is that applying the DRM model would only be appropriate when an entity engages in maturity transformation (i.e. entities that engage in frequent borrowing and lending as part of its main business activities) as its key business activities and manages dynamic portfolio(s) of financial assets and financial liabilities with an intention to manage the repricing risk the entity is exposed to.

Dynamic risk management strategy to mitigate the net exposure to repricing risk

Applying the DRM model would not be appropriate unless an entity has a risk management strategy that focuses on managing net interest income. In the staff's view, that would naturally exclude many entities which already reflect the effects of interest rate changes in the statement of profit or loss using fair value measurements.

Established and systematic risk aggregation processes

In the staff's view, unless there is an established and systematic risk aggregation process, an entity will not be able to form a holistic interest rate risk view, and thus will not be able to manage its interest rate risk holistically at an entity level. Such an entity-wide risk aggregation process would also have to be more fundamental than simply combining a few portfolios and manage them together, which could be better reflected using the general hedge accounting requirement for a group of items under IFRS 9.

Access to a liquid market for raising funding and investing excess cash

The staff is of the view that that access to a liquid market for raising funding and investing excess cash, is also a relevant characteristic of the business and risk management activities for which the DRM model would provide useful information on.

Rate-regulated Activities

In this session, the IASB will redeliberate the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities*, in particular on the direct (no direct) relationship concept and the boundary of a regulatory agreement.

Cover note (Agenda Paper 9)

At this meeting, the IASB will redeliberate the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (ED). The staff prepared papers on the direct (no direct) relationship concept (Agenda Paper 9A) and the boundary of a regulatory agreement (Agenda Paper 9B).

Survey on the direct (no direct) relationship concept—Additional feedback (Agenda Paper 9A)

This paper compliments Agenda Paper 9B discussed at the September 2023 IASB meeting and sets out:

- The staff's analysis of additional feedback from the survey on the direct (no direct) relationship concept relating to capitalised borrowing costs, inflation and other items included in the regulatory capital base
- The staff's recommendations on next steps

Staff recommendation

The staff recommends that the final Accounting Standard includes guidance on how an entity accounts for a regulatory asset or regulatory liability arising from regulatory returns on an asset not yet available for use that compensate for capitalised borrowing costs if:

- The entity determines its capitalised borrowing costs at a higher level of aggregation than the individual asset level
- The regulatory returns are determined on a real basis

Boundary of a regulatory agreement (Agenda Paper 9B)

This paper sets out staff's analysis and recommendations on the proposals on the boundary of a regulatory agreement in the ED.

Staff recommendation

The staff recommends that the final Accounting Standard:

- Specifies the process by which an entity would identify and measure the cash flows that are within the boundary of a regulatory agreement and, hence, are included in the measurement of a regulatory asset (regulatory liability) as described in in Appendix A of the paper
- Retains the proposed guidance on compensation for cancellation of a regulatory agreement in paragraphs B35-B38 of the ED, but clarify that that guidance also applies to other circumstances in which termination occurs and an entity has a right to receive compensation for unrecovered regulatory assets or an obligation to pay compensation for unfulfilled regulatory liabilities
- Includes the principles underlying an entity's right to payment for performance completed to date, as described in IFRS 15:35(c), to help an entity assess the existence of an enforceable present right to receive compensation (enforceable present obligation to pay compensation) for unrecovered regulatory assets (unfulfilled regulatory liabilities) when the regulatory agreement does not include an explicit right to receive compensation (obligation to pay compensation)
- Retains the proposed guidance on rights to renew or cancel a regulatory agreement in paragraphs B31-B34 of the ED, but clarify that rights to renew or cancel an agreement may be explicit or implicit
- Requires an entity to consider how its current expectations of future conditions would affect its practical ability to renew (and other parties' practical ability to cancel) a regulatory agreement when determining the boundary of a regulatory agreement
- Retains the proposals in paragraphs B39-B40 of the ED on reassessments and changes to the boundary

Maintenance and consistent application

The purpose of this session is to ask IASB members whether they object to several agenda decisions that have been published by the IFRS Interpretations Committee

Cover paper (Agenda Paper 12)

The purpose of this session is to ask IASB members whether they object to several agenda decisions that have been published by the IFRS Interpretations Committee. IASB members will also have the opportunity to comment on the September 2023 *IFRIC Update*.

Premiums Receivable from an Intermediary (IFRS 17 and IFRS 9)—Finalisation of agenda decision (Agenda Paper 12A)

At its September 2023 meeting, the IFRS Interpretation Committee (IFRS IC) decided not to add a standard-setting project about how an entity that issues insurance contracts (insurer) applies the requirements in IFRS 17 and IFRS 9 to premiums receivable from an intermediary. The IFRS IC instead decided to finalise an agenda decision.

The purpose of this meeting is to ask IASB members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation Due Process Handbook.

Homes and Home Loans Provided to Employees— Finalisation of agenda decision (Agenda Paper 12B)

At its September 2023 meeting, the IFRS IC decided not to add a standard-setting project to the work plan in response to a request about employee home ownership plans and employee home loans. The IFRS IC instead decided to finalise an agenda decision.

The purpose of this meeting is to ask IASB members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation Due Process Handbook.

Guarantee over a Derivative Contract (IFRS 9)— Finalisation of agenda decision (Agenda Paper 12C)

At its September 2023 meeting, the IFRS IC decided not to add a standard-setting project to the work plan in response to a request on IFRS 9. The IFRS IC instead decided to finalise an agenda decision.

The purpose of this meeting is to ask IASB members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation Due Process Handbook.

IFRIC Update September 2023 (Agenda Paper 12D)

This paper is a copy of the September 2023 *IFRIC Update*. IASB members will be given the opportunity to comment on the document.

Equity Method

The purpose of this meeting is to discuss whether the IASB's tentative decisions on application questions for investments in associates apply when parents elect to use the equity method to investments in subsidiaries in their separate financial statements and to investments in joint ventures.

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 is to ask the IASB to decide whether its tentative decisions on application questions for investments in associates apply:

- When parents elect to use the equity method to investments in subsidiaries in their separate financial statements
- To investments in joint ventures

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 September 2023 meeting, the IASB discussed application of the equity method to investments in subsidiaries in separate financial statements and asked the staff to prepare a paper for decision-making.

The purpose of this paper is to:

- Consider the staff analysis that includes feedback from the Accounting Standards Advisory Forum (ASAF)

- Decide whether the IASB’s tentative decisions on application questions for investments in associates apply when parents elect to use the equity method to investments in subsidiaries in their separate financial statements

Staff recommendation

The staff recommends that the IASB applies its tentative decisions on application questions for investments in associates when parents elect to use the equity method to investments in subsidiaries in their separate financial statements.

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

At its September 2023 meeting, the IASB discussed application of the equity method to investments in joint ventures and asked the staff to prepare a paper for decision-making.

The purpose of this paper is to:

- Consider the staff analysis that includes feedback from ASAF
- Decide whether its tentative decisions on application questions for investments in associates apply to investments in joint ventures

Staff recommendation

The staff recommends that the IASB applies its tentative decisions on application questions for investments in associates to investments in joint venture.

Amendments to the Classification and Measurement of Financial Instruments

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

Feedback analysis—Assessment of contractual cash flows (Agenda Paper 16)

In March 2023, the IASB published the Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments* (ED). This paper addresses the feedback received on Question 2 of the ED about contractual terms that are consistent with a basic lending arrangement. The paper asks the IASB for any comments or questions on the staff analysis but does not require the IASB to make any decisions.

Among the findings from the post-implementation review (PIR) of the classification and measurement requirements in IFRS 9 were concerns about growing diversity in practice of assessing whether the contractual cash flow of financial assets with ESG-linked features represent solely payments of principal and interest on the principal outstanding (SPPI). The IASB concluded that, rather than create an exception for ESG-linked features, it would be better to provide clarifications to the application guidance for the SPPI assessment, including elements of interest that are consistent with a basic lending arrangement and contractual terms that change the timing and amount of contractual cash flows. Almost all respondents agreed with this approach, however concerns were raised that these clarifications could unintentionally disrupt existing practice. The staff believes this can be addressed by refining the clarifications. The staff highlighted that application guidance should be considered holistically. No specific paragraph or requirement takes precedence or can be applied in isolation.

The ED also provided proposed examples to illustrate the application of SPPI requirements to financial assets with ESG-linked features. Feedback on these will be provided in a future meeting.

Concept of a basic lending arrangement

Respondents said that the ED mostly contains guidance on what is inconsistent with a basic lending arrangement and does not provide sufficient guidance to identify the types of features that would be consistent with a basic lending arrangement. The staff agrees with the respondents and believes this guidance should be considered together with the requirements relating to contractual terms that change the timing or amount of the contractual cash flows.

Considering the size of changes in contractual cash flows

Many respondents observed a contradiction between the following two statements:

- The assessment of interest focuses on what an entity is being compensated for, rather than how much compensation an entity receives
- 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

Most respondents agreed with the first statement but do not support its inclusion, as they noted that IFRS 9 does require an entity to consider how much compensation it receives for a particular element of interest. Most respondents agreed with the second statement with regards to the change in cash flows needing to be directionally consistent with a change in basic lending risk or costs, but many raised concerns with the term 'magnitude'.

The staff acknowledges the concerns that the proposals do not provide sufficient clarity on when and to what extent a consideration of the size of changes in contractual cash flow is needed. In the staff's view, in cases where it is not clear whether a contractual term that may change the timing or amount of contractual cash flows is consistent with a basic lending arrangement, a helpful consideration might be whether the fair value of a such contractual feature is insignificant.

Contractual terms that change the timing or amount of contractual cash flows (paragraph B4.1.10 of the ED)

Many respondents disagreed with the statement that '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'. In their view, this could be interpreted to include so-called '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. In the staff's view, it was not the IASB's intention to disrupt current market practice.

Many respondents noted that the statement that 'the occurrence (or non-occurrence) of the contingent event must be specific to the debtor', would preclude any instruments where the ESG-linked targets are set at a consolidated level or for a group entity other than the legal debtor.

Given the shortcomings of the proposal in B4.1.10, the staff believes it is worth considering a different approach to clarifying these principles.

Primary Financial Statements

In this session, the IASB will discuss the sweep issues identified during the pre-ballot process of IFRS 18.

Cover note and summary of feedback and redeliberations (Agenda Paper 21)

In July 2023, the IASB gave the staff the permission to start the balloting process for the publication of the new IFRS Accounting Standard, IFRS 18 *Presentation and Disclosure in Financial Statements.* This paper discusses the sweep issues related to aggregation and disaggregation and other topics identified during the pre-ballot phase of IFRS 18.

Sweep issues related to aggregation and disaggregation and other topics (Agenda Paper 21A)

Background

This paper discusses the issues related to aggregation and disaggregation and other topics which the staff has identified during the pre-ballot process. The issues identified are:

- Presentation of cost of sales
- Hierarchy of characteristics for the statement of financial position
- Transitional relief for additional comparative information

The staff has also identified other minor sweep issues that it has addressed in drafting.

Staff recommendation

The staff recommends that the IASB require an entity to present a line item for cost of sales separately from any other expenses classified by function if the entity classifies operating expenses by function that include cost of sales.

In addition, the staff recommends that the IASB include a hierarchy for the characteristics for presentation in the statement of financial position by explaining in IFRS 18 that:

- Nature or function are characteristics used to aggregate assets and liabilities into separate line items in the statement of financial position—other characteristics, like duration, liquidity, measurement basis, type and tax effects, assist an entity to determine the nature or function of an item
- The duration and timing of recovery and settlement are characteristics that are used when classifying assets and liabilities as either current and non-current and liquidity is a characteristic that is used to classify assets and liabilities by order of liquidity

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

In this session, the IASB will continue the redeliberation of its proposals in the ED *Third edition of the IFRS for SMEs Accounting Standard.*

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 the October 2023 IASB meeting, the IASB will continue its redeliberations of the proposals in the ED.

Proposed revised Section 23 *Revenue from Contracts with Customers* (Agenda Paper 30A)

This paper provides a summary of the feedback on the revised requirements for revenue proposed by the IASB in its ED, a staff analysis of respondents' concerns about the proposals in the ED, the staff suggestions for responding to the issues raised by respondents and a staff recommendation on whether to proceed with the overall proposal in the ED.

The staff recommends that the IASB proceed with revising Section 23 of the *IFRS for SMEs* Accounting Standard to reflect the principles in IFRS 15. The recommendation differs from the IASB's original proposal to revise Section 23 to align it with the principles and language used in IFRS 15.

Simplification of the control model in Section 9 *Consolidated and Separate Financial Statements* (Agenda Paper 30B)

The purpose of this paper is to consider feedback on the proposals in the ED on the simplification of the control model in Section 9 of the *IFRS for SMEs* Accounting Standard and decide whether to amend the control model in Section 9 of the ED.

The staff recommends that the IASB retain and update the rebuttable presumption in paragraph 9.5 of the Standard and update the disclosure requirement in paragraph 9.23(b) of the Standard to use the wording in IFRS 12:7(a).

Recognition of development costs (Agenda Paper 30C)

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

- Consider feedback on development costs (a topic that the IASB considered but for which amendments were not proposed in the ED)
- Decide whether to amend the recognition requirements for development costs in the *IFRS for SMEs* Accounting Standard

The staff recommends that the IASB amend the Standard to introduce an accounting policy option that permits an SME to recognise intangible assets arising from development costs that meet the criteria in of IAS 38:57(a)-(f).

Recognition of borrowing costs (Agenda Paper 30D)

The purpose of this paper is to ask the IASB to consider feedback on borrowing costs (a topic that the IASB considered but for which amendments were not proposed in the ED) and decide whether to amend the recognition requirements for borrowing costs in the *IFRS for SMEs* Accounting Standard.

The staff recommends that the IASB retain the recognition requirements for borrowing costs in the *IFRS for SMEs* Accounting Standard.

Recent amendments to full IFRS Accounting Standards (Agenda Paper 30E)

The purpose of this paper is to ask the IASB whether to align the *IFRS for SMEs* Accounting Standard with any recent amendments to full IFRS Accounting Standards during this comprehensive review.

The staff recommends that the IASB:

- Incorporates IAS 7:44G, 44H(a), 44H(b)(i), (iii) and 44H(c) introduced by *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7) in the third edition of the *IFRS for SMEs* Accounting Standard
- Does not align the *IFRS for SMEs* Accounting Standard with any other amendments to full IFRS Accounting Standards that have an effective date after 1 January 2020 and that were not considered in developing the ED

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

The purpose of this session is to discuss updating the language of disclosure requirements of the forthcoming IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures*

Sweep issues—updating the language of disclosure requirements (Agenda Paper 31)

The purpose of this paper is to highlight the more judgemental changes proposed to the disclosure requirements in the forthcoming IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* (Subsidiaries Standard).

Staff analysis and recommendations

The staff has completed a detailed comparison of the disclosure requirements proposed in the Subsidiaries Standard with the equivalent in full IFRS Accounting Standards.

Staff recommendation

The staff recommends amendments to the sections related to IFRS 2, IFRS 3, IFRS 7, IFRS 12, IFRS 15, IFRS 16, IAS 2, IAS 7, IAS 12, IAS 19, IAS 29, IAS 37, and IAS 41 to clarify the disclosure requirements and make them more consistent across the Standards. The proposed amendments include changes to the wording of the disclosure requirements, the inclusion of examples to illustrate the application of the requirements and the removal of unnecessary disclosures.