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Meeting Summary

December 2023

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Overview

The IASB met in London on 12-14 December 2023. The following topics were discussed:

Power Purchase Agreements: In this meeting, the staff presented the research on how to address accounting issues related to power purchase agreements. Based on the findings of the research and other input received from stakeholders the IASB decided to undertake narrow-scope standard-setting to amend IFRS 9 to better reflect power purchase agreements in the financial statements with the next project milestone to be an exposure draft, exploring amending the 'own use' and hedge accounting requirements in IFRS 9.

Work plan: The IASB received an update on its work plan. In addition, the IASB decided to begin the post-implementation review (PIR) of IFRS 16 in the second quarter of 2024 and to consider when to begin the PIR of the hedge accounting requirements of IFRS 9 after the IASB concludes its work on power purchase agreements.

Rate-regulated Activities: The IASB made decisions on the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities*, in particular with regard to unit of account and offsetting, presentation and items affecting regulated rates only when related cash is paid or received.

Maintenance and consistent application: The IASB decided to propose amendments to IAS 21 to require an entity to translate all items (assets, liabilities, equity items, income and expenses, including comparatives) at the most recent closing rate if the entity has a non-hyperinflationary functional currency and presents its financial statements in a hyperinflationary presentation currency; or translates the results and financial position of a foreign operation that has a non-hyperinflationary functional currency into a hyperinflationary presentation currency.

Climate-related and Other Uncertainties in Financial Statements: The staff informed the IASB about current initiatives in progress to address issues related to the reporting of climate-related and other uncertainties in financial statements, including their status and upcoming steps. No decisions were made.

Management Commentary: The IASB received an update on the project. Potential next steps could include collaborating with the ISSB in advancing the project; proceeding with the IASB project and drawing on input from the ISSB where necessary; or pausing the project until the new reporting landscape becomes more settled. The IASB will discuss these options in a joint meeting with the ISSB in January.

Provisions—Targeted Improvements: The IASB decided to continue developing proposed amendments to IAS 37 and make the next project milestone the publication of an exposure draft for stakeholder comment.

Addendum to the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard*: The IASB decided to publish an addendum exposure draft that proposes amendments to the *IFRS for SMEs* Standard to align Section 7 *Statement of Cash Flows* with *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)* and Section 30 *Foreign Currency Translation* with *Lack of Exchangeability (Amendments to IAS 21)*.

Second Comprehensive Review of the *IFRS for SMEs* Accounting Standard: The IASB decided to finalise the proposals for the new Section 12 *Fair Value Measurement* without significant amendments to its overall content; not to amend Section 9 *Consolidated and Separate Financial Statements* to include requirements for investment entities; and to remove the requirement from Section 22 *Liabilities and Equity* to present the amount receivable as an offset to equity in its statement of financial position if the equity instruments are issued before the entity receives the cash or other resources.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures: The IASB decided to update the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* for disclosure requirements in the forthcoming IFRS 18 *Presentation and Disclosure in Financial Statements*.

Power Purchase Agreements

In this meeting, the staff presented the research and its recommendation on how to address accounting issues related to power purchase agreements.

Summary of research and possible approaches for narrow-scope standard setting (Agenda Paper 3)

In July 2023, the IASB decided to add a project to the work plan to research whether narrow-scope amendments could be made to IFRS 9 to address concerns about the accounting for power purchase agreements (PPAs). At this meeting, the staff provided the IASB with a summary of the research to date and an analysis of possible approaches to narrow-scope standard-setting.

The staff research was based on two questions: the prevalence of PPAs and whether the scope of any potential standard-setting could be sufficiently narrow.

The staff research confirmed that PPAs are being used by entities in almost all geographical regions and across many industries. Stakeholders confirmed that the type of PPAs that give rise to operational challenges with regards to the current accounting requirements, are increasingly being used for the long-term supply of power from renewable or green energy sources.

In terms of scope, the staff considered including an exception in IFRS 9 for PPAs, however the staff does not recommend this approach as there is a significant risk of unintended consequences.

Staff recommendations

Based on the findings of the research and other input received from stakeholders the staff recommended that the IASB:

- Undertake narrow-scope standard-setting to amend IFRS 9 to better reflect power purchase agreements in the financial statements with the next project milestone to be an exposure draft
- Explore an approach to this standard-setting that includes amending the ‘own use’ and hedge accounting requirements in IFRS 9

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

IASB discussion

Overall, IASB members were supportive of the staff paper and recommendations. They all agreed that providing an exemption in IFRS 9 for these contracts was not the right approach.

There was some discussion around the difference between virtual PPAs (VPPAs) and PPAs. The staff confirmed the outcome of the two agreements was the same and they are in place for the same risk management purpose, however the economics behind them is different. PPAs are in place to fix the price and purchase power, whereas VPPAs are effectively a contract for the difference. Based on this, IASB members did not believe that the accounting for both agreements should be same. The staff confirmed that the use of both PPAs and VPPAs are growing. The staff highlighted that the questions for a producer of power will be different to the consumer of power and therefore there will not be one solution for all.

IASB members were positive about this project, however they did raise areas of caution. IASB members discussed that this project should be ringfenced and not disrupt existing practice. The staff noted that by amending the hedge accounting rules, it will likely impact other contracts. IASB members noted that this could benefit other hedge accounting discussions, including load following swaps, and that it is unfortunate that the timing does not work with the post-implementation review of the hedge accounting requirements.

There was some discussion about whether the staff could look at hedge accounting first, because if both VPPAs and PPAs qualify for hedge accounting, then the IASB do not need to alter the own use exemption. The majority of IASB members agreed with this approach, as if a contract qualifies for hedge accounting, it should also qualify for the own use exemption as own use contracts are essentially all-in-one hedges. However, some IASB members disagreed as these contracts are entered into for the purpose of consuming energy. Therefore the own use exemption should be considered first. The staff told the IASB that they will not be looking at the own use exemption and hedging accounting separately as they are interlinked and therefore will be considered together.

IASB members requested the staff to consider, at a later date, disclosures in this area. They requested transparency of the risks related to these contracts. These contracts are long dated and also it is known that approximately 20% of the power generated might need to be sold as it cannot be stored, which will result in volatility.

One IASB member requested that the staff add a tainting rule to avoid any abuse of the requirements. For example, if energy prices increase and the entity sells the power to make a profit, the option of own use in the future would no longer be available.

The staff mentioned that they will come back to the IASB in January with some solutions, but more for educational purposes. After this they will come with proposals and then move to an exposure draft soon after.

IASB decision

All IASB members voted in favour of the staff recommendation.

Work plan

In this session, the staff provided an update on the IASB's work plan. In addition, the IASB decided about the timing of the post-implementation reviews of IFRS 16 and the hedge accounting requirements in IFRS 9.

Update (Agenda Paper 8)

This paper provided an update on the IASB's work plan since its last update in September 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 assessment of overall progress on the work plan, including project prioritisation and timing. In response to requests from IASB members, the staff continues to develop a framework to help the IASB make decisions about project prioritisation and timing in between the IASB's five-yearly agenda consultation. The staff will present the framework to the IASB at a future meeting.

Completed Projects

In September 2023, the IASB published *Amendments to the IFRS for SMEs Accounting Standard—International Tax Reform—Pillar Two Model Rules*.

New Projects

Active projects

During the period, the IASB made active a maintenance project on

- Updating the new Standard *Subsidiaries without Public Accountability: Disclosures*. The IASB expects to publish the new Standard in Q2 2024. After this new Standard has been published, the IASB will publish an exposure draft of proposed amendments to that Standard to update it for new or

amended disclosure requirements added or amended in other IFRS Accounting Standards after 28 February 2021, the cut-off date for disclosures considered in the new Standard
- An addendum to Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard*. This addendum will propose amendments to the *IFRS for SMEs* Accounting Standard to align with the requirements in full IFRS Accounting Standards on supplier finance arrangements and the lack of exchangeability in foreign exchange rates.

<u>Pipeline projects</u>

During the period, the IASB added a project to the pipeline to remove, as part of its next volume of *Annual Improvements to IFRS Accounting Standards*, the temporary nature of the exemption in IFRS 6 from the application of paragraphs 11-12 of IAS 8.

At its December meeting, the IASB will

- Decide whether to start a pipeline project on Use of a Hyperinflationary Presentation Currency by a Non-hyperinflationary Entity
- Consider updated information about whether to start its post-implementation reviews on IFRS 16 and the hedge accounting requirements in IFRS 9

<u>Expected project completions in about the next six months</u>

The staff expects that the IASB will publish the following final standards and amendments in Q2 2024:

- IFRS 18 *Presentation and Disclosure in Financial Statements*
- IFRS 19 *Subsidiaries without Public Accountability: Disclosures*
- Amendments to the Classification and Measurement requirements in IFRS 9

<u>Consultation documents in the next six months</u>

The staff expects to publish the following consultation documents in Q2 2024:

- Exposure Draft *Business Combinations—Disclosure, Goodwill and Impairment*
- Exposure Draft *Addendum to the Exposure Draft Third edition of the IFRS for SMEs Accounting Standard*

IASB discussion

One IASB member mentioned that issues around cash flow statements were still urgent and the pipeline project on cash flow statements should therefore be started as soon as resources become available. The Chair added that repeated criticism from stakeholders is that projects take too long and they suggested to split big projects into several smaller projects to complete them faster. This could be done for cash flow statements as well, if it can be meaningfully split up. One IASB member agreed but said it should not keep the IASB from taking on ambitious questions. Another IASB member said that there is a need to become quicker, especially as with long running projects, stakeholders only get interested later in the process when it may be too late to consider their issues. One IASB member noted that many new projects are now touching on sustainability themes, which is understandable but also take up resources.

The Chair said that he was happy with where the IASB is in terms of its work plan. A way to speed projects up would be to not consult anymore, which he would very much object to. In his view, including stakeholders in the standard-setting is far superior to speed.

Timing of the post-implementation reviews of IFRS 16 *Leases* and of hedge accounting requirements of IFRS 9 *Financial Instruments* (Agenda Paper 8A)

The Due Process Handbook requires the IASB to conduct a post-implementation review (PIR) of each new IFRS Standard or major amendment and describes the objective, process and outcomes of a PIR. In September 2022, the IASB discussed clarifications to the description of the objective, process and outcomes of a PIR. Following this discussion and consultation with the Due Process Oversight Committee of the IFRS Foundation Trustees, a clarified description of the PIR process was published on the IFRS Foundation website. This paper considered when the IASB should begin the PIRs of IFRS 16 and the hedge accounting requirements of IFRS 9.

Staff recommendation

The staff recommended that the IASB:

- Begin the PIR of IFRS 16 in Q2 2024
- Consider when to begin the PIR of the hedge accounting requirements of IFRS 9 after the IASB concludes its work on power purchase agreements (PPAs)

IASB discussion

<u>PIR of IFRS 16</u>

In a continuation of the discussion on the previous paper, one IASB member said that resources becoming available should be used on the cash flow statements project, rather than the PIRs, particularly the IFRS 16 PIR. This would also relieve the consultation workload of stakeholders. This was echoed by several IASB members, although others spoke out against delaying the IFRS 16 PIR as it will have been five years of application when the RFI is published if the staff recommendation is followed. Also, there is no option to avoid the PIR and the ideal point in time is now, according to these IASB members. When asked, the staff confirmed that the next alternative for the PIR would be towards the end of 2026, which was seen as too late by many. Especially considering that any amendments that would arise from the PIR would not be finalised before a long time and there are valid user concerns about the information produced by IFRS 16. In addition, stakeholders may be eager to voice their concerns about the standard, rather than burdened by it. One IASB member suggested considering postponing the decision on the timing by six months. This was met with disagreement by many IASB members as they said the discussion in six months would be very similar to the current discussion.

One IASB member asked whether the staff could provide information on where the FASB is with their PIR of the leases standard. The staff replied that the FASB has concluded the implementation support (including limited amendments to the standard) and starts now with outreach and research, with a report expected in 2025 at the earliest.

One IASB member asked how it would affect other projects if the IASB followed the staff recommendation for the IFRS 16 PIR. The staff replied that it depends on several factors. Doing only intangibles, cash flow statements and PIRs would not pose a problem. However, there are other decisions pending on, for example, management commentary that can affect the resource planning. The IASB member asked which would be the time of intense stakeholder consultation for the PIR if the staff recommendation was carried, which was responded with ‘early 2025’ by the staff.

<u>PIR of IFRS 9 hedge accounting requirements</u>

The Chair highlighted that many preparers, mostly banks, are still using IAS 39 for hedge accounting. In addition, insurers are moving just now to IFRS 9. It is therefore worth considering whether the PIR on the hedge accounting requirements should be split by industry. The staff said that it does not see a benefit of splitting the PIR.

One IASB member said that looking at the discussion on the IFRS 16 PIR, if the IASB wanted to wait until the project on PPAs is completed, it would be another five to six years before the PIR could be started. He would not object to that but wanted his fellow IASB members to be aware of that fact. One IASB member replied that it is a resource question as the resources who can work on hedge accounting are tied up by the PPAs and dynamic risk management projects. Other IASB members spoke out in favour of postponing the PIR, given IFRS 9 hedge accounting is optional and given the IASB is working on amendments to the requirements. However, one IASB member suggested not to wait until the project on PPAs is complete but rather make the decision on the timing of the PIR once it becomes clear how extensive the changes to IFRS 9 are.

IASB decision

10 of the 14 IASB members voted in favour of the staff recommendation on the PIR of IFRS 16.

All IASB members voted in favour of the staff recommendation on the PIR of the IFRS 9 hedge accounting requirements.

Rate-regulated Activities

In this session, the IASB continued to redeliberate the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities*, in particular on unit of account and offsetting, presentation and items affecting regulated rates only when related cash is paid or received.

Cover note (Agenda Paper 9)

At this meeting, the IASB continued to redeliberate the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (ED).

Unit of account and offsetting (Agenda Paper 9A)

This paper set out the staff analysis and recommendations on the proposals in the ED on the unit of account and on offsetting of regulatory assets and regulatory liabilities for presentation purposes.

Staff recommendation

The staff recommended that the final Accounting Standard:

- Clarifies that the unit of account is the right or obligation arising from a difference in timing or from a group of differences in timing when the differences in timing included in that group are created by the same regulatory agreement, have similar expiry patterns and are subject to similar risks (Recommendation 1)
- Excludes the proposal on permitting an entity to offset regulatory assets and regulatory liabilities for presentation purposes in paragraph 71 of the ED (Recommendation 2)

IASB discussion

Several IASB members agreed with recommendation 1 and one IASB member mentioned that the proposed inclusion of the example, although not part of the standard, would be a good addition to the illustrative examples.

One IASB member challenged the concept of similar expiry patterns subject to similar risks for the unit of account and whether this could raise questions from users in terms of what similar means and if this could be applied consistently. This had been considered by the staff and the wording aligns with aggregation principles considered elsewhere in the standard. Another IASB member asked for clarification on the checking requirement in the basis of conclusion note and whether this should be interpreted as a requirement or condition. The staff had considered this and mentioned that the example to be included will make this clear.

Some IASB members mentioned that Recommendation 2 on offsetting was considered from an IAS 12 perspective and initially caused reluctance to remove paragraph 71 but the main difference noticed was that items in IAS 12 are all timing differences and this is not the case for rate-regulated activities. Thus, they supported the staff's recommendation.

IASB decision

All 14 IASB members present voted in favour of the staff recommendations.

Presentation (Agenda Paper 9B)

This paper set out the staff's analysis and recommendations on:

- The presentation proposals in paragraphs 67-68 and 70 of the ED
- The proposed amendments to IAS 1

Staff recommendation

The staff recommended that the final Accounting Standard:

- Specifies that all regulatory income minus all regulatory expense should be classified as revenue (Recommendation 1)
- Requires disclosure of all regulatory income minus all regulatory expense separately from an entity's other sources of revenue, unless that amount is presented as a separate line item in the statement(s) of financial performance (Recommendation 2)
- Excludes the proposed amendment to paragraph 82 of IAS 1 requiring regulatory income or regulatory expense to be presented as a separate line item below revenue (Recommendation 3)
- Retains the proposals to include regulatory interest income within regulatory income and regulatory interest expense within regulatory expense (Recommendation 4)
- Amends the forthcoming IFRS 18 *Presentation and Disclosure in Financial Statements* to specify that regulatory interest is excluded from the financing category and is classified in the operating category (Recommendation 5)
- Retains the proposal to present line items for regulatory assets and regulatory liabilities in the statement of financial position, including the requirement to classify those regulatory assets and regulatory liabilities as current or non-current applying paragraphs 66 and 69 of IAS 1, except when the entity presents all assets and liabilities in order of liquidity (Recommendation 6)

IASB discussion

Several IASB members agreed with Recommendation 1. However, an IASB member endorsed that the standard should state that for presentational purposes the net regulatory income and expenses are presented as revenue and not gross.

Several IASB members had differing views relating to Recommendation 1. Some members disagreed with the recommendation due to the following reasons:

- Not including the revenue in the income statement as a separate line item sets a bad precedent to not do the same for the balance sheet, considering the principle of the IFRS 18 useful structure summary going forward. The staff confirmed on this point that the difference in the treatment of the balance sheet and income statement is due to using current presentation guidance within IAS 1 but it was discussed by IASB members that IFRS 18 behavioural principles also have to be considered as that standard will be published before this project is concluded and cannot be contradictory.

- It fails to meet one of the criteria of what primary financial statements do in relation to signalling information to users.
- There is real concern that a precedent will be set by saying that a general principle (the useful structure summary) should be applied to a very specific area when there is a lack of a specified line item.
- There was no initial disagreement on the ED which stated that the regulatory revenue would be a separate line item on the face as this is an important area to users based on feedback. Thus, some IASB members considered that this should be the starting point subject to the IFRS 18 useful structure summary principles.

Some IASB members agreed with the Recommendation 2 based on the following reasons:

- It provides consistency with IFRS 15 and if there was inclusion as a separate line item on the face of the income statement, there would need to be consideration about inclusion for all upcoming projects that have a revenue aspect.
- One IASB member mentioned that the IFRS 18 useful structure summary is a solution to the recommendation as the principle would lead a company to disaggregate the revenue anyway.
- IFRS 18 is an overriding principle, that is entity specific and will apply to everything. There are two principles which are looked at: firstly, something must be material to get into the financial statements, and secondly, is it necessary to provide a useful structure summary and if so, it will be presented on the face. Therefore the useful structure summary cannot be illustrated in an example because it depends on the behavioural judgement.

Some IASB members mentioned that the differing views are about signalling in the financial statements and what is important to users. These IASB members mentioned that if the IASB took a principle-based, IFRS 18, approach, it would have to be explicit in the standard application guidance and not just in the basis for conclusions. However, consistency across standards is key.

An IASB member was in agreement with Recommendations 3 and 4 as this aligns with IFRS 18 and is seen to be part of the main business of an entity. However, the IASB member raised a question on whether IFRS 18 needs to be amended to clarify whether regulated interest income or expense is part of the main business or not.

IASB decisions

All 14 IASB members voted in favour of the Recommendations 1 and 3-6.

A preference vote was taken for Recommendation 2:

- On the staff recommendation, which does not include explicit presentation requirements, 5 of the 14 IASB members voted in favour
- On being explicit on separate presentation, 9 of the 14 IASB members voted in favour

Items affecting regulated rates only when related cash is paid or received—Overview (Agenda Paper 9C)

This paper included the staff's recommended approach to the redeliberation of the proposals in the ED relating to items affecting regulated rates on a cash basis.

The survey and the background information document are for information only and some IASB members highlighted the support for the staff's proposal.

Items affecting regulated rates on a cash basis (Agenda Paper 9D)

This paper set out the staff analysis and recommendations on the proposals in the ED relating to the measurement and presentation of items affecting regulated rates only when the related cash is paid or received.

This paper did not discuss requests to extend the proposed measurement and presentation of items affecting regulated rates on a cash basis to other items, this will be discussed at a future meeting.

Staff recommendation

The staff recommended that the final Accounting Standard:

- Continues to state that differences in timing that arises from differences between the regulatory and accounting criteria represents enforceable present rights or enforceable present obligations that meet the proposed definitions of regulatory assets and regulatory liabilities (Recommendation 1)
- Retains the proposed measurement requirements in paragraph 61 of the ED for items that affect regulated rates only when the related cash is paid or received (Recommendation 2)
- Retains the proposed requirements in paragraph 69 of the ED to present specified regulatory income and regulatory expense in other comprehensive income (OCI) (Recommendation 3)
- Clarifies that an entity reclassifies regulatory income or regulatory expense presented in OCI to profit or loss when, and to the extent that, IFRS Accounting Standards require the reclassification of the related expense or income to profit or loss (Recommendation 4)
- Does not include additional presentation requirements for OCI and instead relies on the requirements in IAS 1 or IFRS 18 (once effective) (Recommendation 5)

IASB discussion

Several IASB members agreed with Recommendation 1 as disagreement would mean changing the model. One IASB member questioned whether there will be an enforceable right if no cash is paid. The staff commented that it is important to note that an entity would accrue costs based on services provided and if the costs are recoverable then the entity does have a right to record an asset or liability in line with the *Conceptual Framework*. Other IASB members agreed and understood this concept by assuming certainty when it comes to receipt or payment of cash flows as the only element unknown in this instance is the timing thereof.

For Recommendation 2, one IASB member disagreed with the staff recommendation but was particularly concerned with the rationale behind the recommendation, i.e. matching and indemnification. Some IASB members agreed with this staff recommendation in the context of what is included in the ED.

Some IASB members disagreed with the Recommendations 3-5 on the basis that regulatory income and expenses meet the definition of revenue and are not an offset to an expense or a contra-expense etc. Therefore, the justification that a cash basis trigger would cause the regulatory revenue to go into OCI is not understood. One IASB member considered that there is inconsistency with the staff recommendations in agenda papers 9B and 9D.

Some IASB members agree with the Recommendations 3-5 on the basis that there is no inconsistency. It is understood that there is a principle or rule in agenda paper 9B and agenda paper 9D discusses an exception to the principle or rule.

IASB decisions

13 of the 14 IASB members voted in favour of Recommendation 1.

11 of the 14 IASB members voted in favour of Recommendation 2.

12 of the 14 IASB members voted in favour of Recommendations 3-5.

Maintenance and consistent application

In this session, the IASB discussed an amendment to IAS 21 to clarify the accounting treatment applied by a parent with a hyperinflationary functional currency when it consolidates a subsidiary with a non-hyperinflationary functional currency.

Use of a Hyperinflationary Presentation Currency by a Non-hyperinflationary Entity (IAS 21)—Background and summary of prior discussions (Agenda Paper 12A)

The IFRS Interpretations Committee (IFRS IC) discussed the presentation of financial statements in a hyperinflationary presentation currency by an entity whose functional currency is non-hyperinflationary. The question arose in the context of the accounting treatment applied by a parent with a hyperinflationary functional currency when it consolidates a subsidiary with a non-hyperinflationary functional currency.

In June 2023, the IFRS IC decided to refer the matter to the IASB by recommending that the IASB develops a narrow-scope amendment to address the matter.

The purpose of this meeting was to ask the IASB whether it agrees with:

- The IFRS IC's recommendation to develop a narrow-scope amendment to address the matter
- The staff recommendation set out in Agenda Paper 12B

Use of a Hyperinflationary Presentation Currency by a Non-hyperinflationary Entity (IAS 21)—Recommended amendment to IAS 21 (Agenda Paper 12B)

The staff agree with the IFRS IC's recommendation to develop a narrow-scope amendment to address the submitted fact pattern and the related matter for the reasons considered by the IFRS IC.

Staff recommendation

The staff recommended to amend IAS 21 to require an entity to translate all items (assets, liabilities, equity items, income and expenses, including comparatives) at the most recent closing rate if the entity:

- Has a non-hyperinflationary functional currency and presents its financial statements in a hyperinflationary presentation currency; or
- Translates the results and financial position of a foreign operation that has a non-hyperinflationary functional currency into a hyperinflationary presentation currency

IASB discussion

The papers were discussed together.

IASB members thought that the staff recommendation was a good compromise in terms of costs and benefits to address the concerns, even though it is not the wholesale solution that IFRS IC members proposed. The amendment is timely as the issue is becoming more and more prevalent as more jurisdictions become hyperinflationary. However, one IASB member said that if the feedback on the exposure draft reveals that more work is needed, he would prefer to abandon the project rather than spending more time and resources to fix the issue. That was echoed by some of his fellow IASB members.

One IASB member expressed concern about stakeholder workload as many consultations are planned for 2024, and in his view, there is no scope for another consultation. The Vice-Chair replied that jurisdictions that are not directly affected may not comment on the proposal and therefore, the concern may not be valid in all jurisdictions. However, one IASB member mentioned that the issue does not only affect jurisdictions that are hyperinflationary as many entities from non-hyperinflationary jurisdictions have investments in jurisdictions that are hyperinflationary.

It was suggested that the examples from the agenda paper should be incorporated in the exposure draft.

IASB decision

13 of 14 IASB members agreed with adding a maintenance project on this issue to the IASB's work plan.

All IASB members agreed to propose amending IAS 21 to require an entity to translate all amounts (assets, liabilities, equity items, income and expenses, including comparative amounts) at the closing rate at the date of the most recent statement of financial position if that entity:

- has a non-hyperinflationary functional currency and presents financial statements in a hyperinflationary presentation currency; or
- translates the results and financial position of a foreign operation that has a non-hyperinflationary functional currency into a hyperinflationary presentation currency.

Climate-related and Other Uncertainties in the Financial Statements

In this session, the staff informed the IASB about the status and future steps of the project concerning climate-related and other uncertainties in the financial statements.

Project update (Agenda Paper 14)

This agenda paper was aimed to provide a summary of the current initiatives in progress to address issues related to the reporting of climate-related and other uncertainties in financial statements, including their status and upcoming steps. In particular:

- Staff is engaging in outreach regarding examples, including the application of materiality, to demonstrate how IFRS Accounting Standards can be applied to report the impacts of climate-related and other uncertainties in financial statements. Outreach results and draft examples are expected to be presented to the IASB for discussion in Q1 2024.
- Staff is researching targeted amendments to IFRS Accounting Standards for better estimates disclosure. Assessing whether standard-setting benefits outweigh costs, including unintended consequences, is part of the ongoing exploration.
- The IFRS Interpretations Committee (IFRS IC) discussed the reflection of climate-related risks in the application of IAS 36 at its November 2023 meeting, indicating that entities already consider and address variability over an extended time horizon under IAS 36, making additional standard-setting or explanatory material unnecessary.
- On the recognition of a liability, for example in case of commitments to reduce greenhouse gas emissions by a specified date and commitments that involve uncertain amount or timing of outflows, in line with IAS 37, the IFRS IC received a submission and decided to publish a tentative agenda decision, expected in early December, for public consultation.
- With reference to the request of some stakeholders to better understand the extent to which an entity's assets, liabilities, equity, income, expenses and cash flows are exposed to specific risks (e.g. entity's assets located in geographies subject to significant physical climate-related risks), the Primary Financial Statements project will strengthen requirements around aggregation and disaggregation of information in the financial statements. This might improve the information entities provide about items subject to specific risks. The final Standard is expected in Q2 2024.

- The final amendments to the classification and measurement of financial instruments is expected in H1 2024. This can be useful to clarify the requirements to assess the contractual cash flow characteristics of ESG-linked financial assets, to determine whether to measure those assets at fair value or amortised cost.
- On power purchase agreements (PPAs), there is a project aimed at exploring whether narrow-scope amendments could be made to IFRS 9 to improve information for users about PPAs. The IASB will discuss the research conducted for this project in December 2023.
- The summary of the post-implementation review of the IFRS 9 impairment requirements is expected by H2 2024. This could address observations made by stakeholders about the incorporation of climate-related risks in the measurement of the expected credit loss allowance.
- The staff is currently exploring the development of an article about the objective of financial statements, their audience, their boundaries and how they can be complemented by sustainability-related financial disclosures, such as those provided applying ISSB Standards.
- To improve awareness of educational material on how to report climate-related and other uncertainties in the financial statements, the staff has created a central source of information on its website. This website includes translations of educational material into different languages (more to be posted as it becomes available), as well as information about other work in progress on this area.

The IASB was not asked to make any decisions at this meeting. Instead, the staff asked whether IASB members have any comments or questions on the status of and next steps for the climate-related and other uncertainties in the financial statements project.

IASB discussion

IASB members discussed the most effective strategy to move the current project forward, focusing on the following key considerations:

- The final goal of the project and the need to properly understand the real issues underlying the request to reduce inconsistencies between the back-half and the front-half sections of annual reports.
- Subject to the proper understanding of the first point, what is the best way to provide additional guidance? Through articles/educational material or through improvements to the existing standards?

It was mentioned that it is important to note that the ongoing project is a maintenance project and not a disclosure project on climate risks in the financial statements.

The staff confirmed that it acquired valuable insights to progress further with the project.

Management Commentary

In this meeting, the IASB received an update on the Management Commentary project.

Project update (Agenda Paper 15)

In this paper, the staff provided an update to the ISSB's consultation on agenda priorities, which included a question regarding the potential for the IASB and ISSB to jointly undertake a project on integration in reporting. Because such a project could build upon the IASB's Exposure Draft (ED) *Management Commentary*, feedback on the ISSB's consultation could affect the IASB's decision about the direction of the management commentary project.

The staff also included relevant background to and the evolving landscape around the management commentary project, summarising the origin of the project, the ED *Management Commentary* and the feedback received in response, the interaction with the Integrated Reporting Framework, and the ISSB's agenda consultation.

The staff also set out potential next steps to be discussed at a future joint IASB and ISSB meeting, which could include:

- Collaborating with the ISSB in advancing the project
- Proceeding with the IASB project and drawing on input from the ISSB where necessary
- Pausing the project until the new reporting landscape becomes more settled

The IASB was not asked to make any decisions in this meeting.

IASB discussion

IASB members welcomed the summary of the project's state ahead of the joint meeting with the ISSB in January.

It was noted that most of the analysis of respondents' feedback is still to be completed and therefore there were limited preliminary views on the potential next steps.

However, it was noted that the corporate reporting context is very different when compared with that at the start of the project, following the formation of the ISSB and integration of the International Integrated Reporting Council (IIRC) within the IFRS Foundation. IASB members noted it will be important to consider the purpose of the practice statement in this updated context and whether it should be content focused (in which case there may be overlap between IFRS Accounting Standards, IFRS Sustainability Disclosure Standards and the Integrated Reporting Framework), or whether it will be focused on being applicable across many jurisdictions that have different regulations (for example, a preparer reporting in accordance with IFRS Accounting Standards that is not required to report in accordance with IFRS Sustainability Disclosure Standards may require a discrete practice statement within IFRS Accounting Standards).

Provisions—Targeted Improvements

The purpose of this meeting was to decide whether to continue developing proposed amendments to IAS 37 and make the next project milestone the publication of an exposure draft.

Project direction (Agenda Paper 22)

The IASB made tentative decisions on possible amendments to the measurement requirements:

- In July 2023, it tentatively decided that the expenditure required to settle the entity's present obligation should be the costs that relate directly to settling that obligation, which consist of both:
    - The incremental costs of settling the obligation
    - An allocation of other costs that relate directly to settling obligations of that type.
- In November 2023, it tentatively decided that an entity should discount the estimated future expenditure at a rate that reflects the time value of money— represented by a risk-free rate—with no adjustment for non-performance risk

The IASB has not yet made decisions on amendments to the requirements supporting the present obligation recognition criterion. However, at its meeting in April 2023, the IASB discussed detailed staff suggestions for possible amendments, including illustrative drafting. The staff papers for that meeting identified only one major open issue—whether the amendments should include application requirements for charges triggered if a measure of an entity's performance (for example its revenue or its greenhouse gas emissions) exceeds a specified threshold.

Feedback from stakeholder groups has been generally positive and provided useful suggestions for improving the structure and drafting of the amended requirements. Furthermore, stakeholders have expressed consistent views on requirements for charges triggered by exceeding a threshold. Most stakeholders commenting on this matter agreed that the IASB should add to IAS 37 application requirements for such charges and thought that liabilities for the charges could arise as progress is made towards the threshold, not only after the threshold has been met.

On the basis of the progress the IASB has made on this project, the staff thinks it can now start to make plans for publishing proposals for wider comment.

Staff recommendation

The staff recommended that the IASB continue developing proposed amendments to IAS 37 and make the next project milestone the publication of an exposure draft for stakeholder comment.

IASB discussion

There was no significant discussion. All of the 14 IASB members voted in favour of the staff recommendation.

Addendum to the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard*

In this session, the IASB discussed whether to publish an addendum exposure draft to further align the *IFRS for SMEs* Standard with recent amendments to IFRS Accounting Standards.

Lack of Exchangeability and Supplier Finance Arrangements (Agenda Paper 29)

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

At its October 2023 meeting, the IASB tentatively decided to amend the scope of the second comprehensive review and include the amendments to full IFRS Accounting Standards for supplier finance arrangements and lack of exchangeability.

The purpose of this paper was to:

- Ask the IASB to decide how to propose amendments to the *IFRS for SMEs* Standard:
    - To align Section 7 *Statement of Cash Flows* of the Standard with *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7)
    - To align Section 30 *Foreign Currency Translation* of the Standard with *Lack of Exchangeability* (Amendments to IAS 21)
- Ask the IASB whether it is satisfied that it has complied with the applicable due process steps and that it should begin the balloting process for the addendum exposure draft
- Ask if any IASB member intends to dissent from the proposals in the addendum exposure draft

Staff recommendation

The staff recommended that the IASB:

- Amends the Standard to align Section 7 of the Standard with *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7) and to align Section 30 of the Standard with *Lack of Exchangeability* (Amendments to IAS 21)
- Propose the amended and revised sections have the same effective date as the effective date of the third edition of the Standard

- Set the same effective date for the proposals in the addendum exposure draft as for the ED
- Propose no transition reliefs for amendments to Section 7 of the Standard
- Develop similar transition reliefs for amendments to Section 30 of the Standard as for the amendments to IAS 21
- Propose a 120-day comment period for the addendum exposure draft
- Consider illustrative examples (accompanying IAS 21) when updating the educational modules
- Specifically seek feedback on the proportionality of the proposals to SMEs

IASB discussion

Some IASB members challenged the staff analysis and recommendation in relation to supplier finance arrangements. For example, they did not think it was relevant to determine the accounting at the reporting date given that for many SMEs most of the financial liabilities that are part of a supplier finance arrangement will have been settled by the time their financial statements are issued. IASB members noted that there is a need to get full feedback through the ED on benefits and costs, instead of asking only for feedback on the proportionality of the cost and effort involved for SMEs.

IASB decision

All IASB members voted in favour of the staff recommendations on proposed amendments to the *IFRS for SMEs* Accounting Standard for supplier finance arrangements and lack of exchangeability except for specifically seeking feedback on the proportionality of the proposals to SMEs.

In addition, all IASB members agreed with the staff recommendation to provide a 120-day comment period for the proposals in the addendum exposure draft. All IASB members were satisfied that the IASB has complied with the applicable due process steps and that the staff should begin the balloting process for the addendum exposure draft. No IASB member intends to dissent from the proposals in the addendum exposure draft.

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

In this session, the IASB continued 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* (ED). The ED was open for comment for 180 days, which ended on 7 March 2023.

At the December 2023 IASB meeting, the IASB continued its redeliberations of the proposals in the ED.

Fair value measurement (Agenda Paper 30A)

The purpose of this paper was for the IASB to consider feedback on proposed new Section 12 *Fair Value Measurement* in the ED and decide whether to make any changes to that proposed new section.

Staff recommendation

The staff recommended that the IASB should:

- Finalise the proposals for the new Section 12 without significant amendments to its overall content
- Consider drafting suggestions made by respondents and use of plainer language to express requirements in the new Section 12
- Remove the appendix to the new Section 12 and include examples in separate educational material

- Consider suggestions for additional guidance and illustrative examples when updating the separate educational material

IASB discussion

IASB members supported the staff recommendation to finalise the proposals for the new Section 12 without significant amendments to its overall content. They also supported the staff's proposal to use plainer language to express the requirements in proposed Section 12 of the *IFRS for SMEs* Accounting Standard to reduce complexity.

IASB members welcomed the staff proposal to move the non-mandatory guidance to separate educational material, rather than to appendices to the standard for consistency. This would also enable greater flexibility in providing examples for SMEs.

IASB members were supportive of the staff's suggestion for additional guidance and illustrative examples when developing the educational material for Section 12.

IASB decision

All IASB members voted in favour of the staff recommendations.

Investment entities (Agenda Paper 30B)

The purpose of this paper was to ask the IASB to consider feedback from comment letters on investment entities—a topic that the IASB considered but for which amendments were not proposed in the ED and to decide whether to amend Section 9 *Consolidated and Separate Financial Statements* of the *IFRS for SMEs* Accounting Standard.

Staff recommendation

The staff recommended that the IASB does not amend Section 9 of the *IFRS for SMEs* Accounting Standard to include requirements for investment entities.

IASB discussion

One IASB member said it would be easy to add the requirement for investment entities to the *IFRS for SMEs* Accounting Standard although there was no absolute reason for including them, considering other factors.

Some IASB members believed that introducing the requirement for investment entities would introduce complexity to the standard, even though it could reduce ongoing cost for a small population of SMEs that are investment entities.

Some IASB members did not think the relevance principle is met as there would only be a small population of SMEs that would be affected by introducing the requirement for investment entities in the standard.

IASB decision

All IASB members voted in favour of the staff recommendation not to amend Section 9 of the *IFRS for SMEs* Accounting Standard to include requirements for investment entities.

Requirement to offset equity instruments (Agenda Paper 30C)

The purpose of this paper was to ask the IASB to consider the feedback on whether to remove paragraph 7(a) of Section 22 *Liabilities and Equity* of the *IFRS for SMEs* Accounting Standard. This is a topic that the IASB sought views on but for which amendments were not proposed in the ED.

Staff recommendation

The staff recommended that the IASB remove paragraph 22.7(a) of the *IFRS for SMEs* Accounting Standard.

IASB discussion

Some IASB members questioned whether removing the paragraph could create problems for entities that have already applied this requirement previously. One IASB member considered whether an accounting policy choice should be allowed here. Some IASB members were supportive of retaining this paragraph to leave the simplification within the *IFRS for SMEs* Accounting Standard but proposed to add a clarification to address the comments received, for example adding the words 'unless legislation requires otherwise'.

Other IASB members supported the staff recommendation and considered that removing the paragraph would be consistent with the IASB's alignment approach. This is because full IFRS Accounting Standards do not set out the presentation requirements for receivables on equity instruments. These IASB members were not in favour of an accounting policy choice.

IASB decision

Only 6 of 14 IASB members voted in favour of the staff recommendation to remove paragraph 22.7(a) of the *IFRS for SMEs* Accounting Standard.

13 IASB members voted in favour of retaining paragraph 22.7(a) of the *IFRS for SMEs* Accounting Standard and provide an accommodation for the comments received for example, adding the words 'unless legislation requires otherwise'.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

In this session, the IASB discussed the approach to updating the Exposure Draft for the disclosure requirements in the forthcoming IFRS 18 *Presentation and Disclosure in Financial Statements*.

Sweep issues—approach to updating the Exposure Draft for the PFS Standard (Agenda Paper 31)

Background

The proposed disclosure requirements in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (ED) were developed considering all IFRS Accounting Standards issued as at 28 February 2021 and exposure drafts published as at 1 January 2021 except for the Exposure Draft *General Presentation and Disclosures*. Therefore, the proposed disclosure requirements in the ED were based on IAS 1. IFRS 18 *Presentation and Disclosure in Financial Statements* will replace IAS 1 and make consequential amendments to other IFRS Accounting Standards.

The objective of the paper was to discuss how the proposed disclosure requirements set out in the ED should be updated for the future IFRS 18, which is expected to be issued before the IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* (the Subsidiaries Standard).

Staff analysis

<u>Approach to updating the Exposure Draft for the disclosure requirements in IFRS 18</u>

The disclosure requirements in the IFRS 18 have been analysed and categorised as follows:

- Disclosure requirements in IAS 1 that are retained in IFRS 18, which can be further categorised as changes to the nature of a requirement, editorial changes or unchanged requirements

- Disclosure requirements relocated from IAS 1 to IFRS 7 and IAS 8, which have undergone editorial changes
- New disclosure requirements in IFRS 18, such as those related to management-defined performance measures

General approach

Disclosure requirements from IAS 1 that were proposed in the ED should be included in the Subsidiaries Standard under the subheading 'IFRS 18'.

Disclosure requirements in IAS 1 that are not proposed in the ED should not be included in the Subsidiaries Standard because they were assessed as not meeting the principles for reducing disclosure requirements.

Disclosure requirements in IFRS 18 that will be included in the Subsidiaries Standard are either added as disclosure requirements under the subheading 'IFRS 18' (for disclosure requirements that specify what information to disclose) or requirements that remain applicable in situ (for requirements that result in a disclosure when particular conditions are met).

Staff recommendation

The staff recommended that the IASB updates the ED for disclosure requirements in IFRS 18 using the approach described above.

In applying this approach to the prospective IFRS 18, the IASB should:

- Exclude from the Subsidiaries Standard guidance on applying disclosure requirements in paragraphs 78, 98, 114 and 117 of IAS 1 that will be retained in the IFRS 18
- Exclude from the Subsidiaries Standard IAS 1:106(d) that will become a presentation requirement in IFRS 18
- Include the relief in IAS 1:128 that will be retained in IFRS 18

IASB discussion

All 14 IASB members agreed with the staff recommendation but there was otherwise no significant discussion.